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Department of Economic and Social Affairs

MULTINATIONAL CORPORATIONS IN WORLD DEVELOPMENT

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NOTE

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PREFACE

The United Nations Economic and Social Council, in resolution 1721 (LIII) adopted unanimously on 28 July 1972, requested the Secretary-General to appoint a Group of Eminent Persons to study the role of multinational corporations and their impact on the process of development, especially that of developing countries, and also their implications for international relations; to formulate conclusions which may possibly be used by governments in making their sovereign decisions regarding national policy in this respect, and to submit recommendations for appropriate international action.

The present report has been prepared by the Department of Economic and Social Affairs of the United Nations Secretariat to facilitate the deliberation of the Group of Eminent Persons. The report seeks to clarify various concepts pertaining to multinational corporations, provides basic data on their size, geographical distribution, industrial structure and ownership patterns, and assesses their dimensions in the world economy. The review of the salient characteristics of multinational corporations is followed by a discussion of their impact on international relations, and on home and host countries, including tensions that may develop between them and these countries. An account is also given of the implications of the operations of multinational corporations for the international monetary and trade regimes as well as of jurisdictional issues relating to taxation. In conclusion, the report reviews existing policies in respect of multinational corporations and includes proposals for national, regional and international action. A summary appears at the end of each chapter. In addition, annex I contains excerpts from relevant decisions of United Nations bodies, annex II provides alternative terms and definitions of multinational corporations and annex III contains statistical tables.

In view of the widespread interest in the workings and implications of multinational corporations, this document is being made available to a wider audience in the hope that the information and analyses presented therein will make a useful contribution to the debate on this important phenomenon.

INTRODUCTION

In the past quarter of a century the world has witnessed the dramatic development of the multinational corporation into a major phenomenon in international economic relations. Its size and geographical spread, the multiplicity of its activities, its command and generation of resources around the world and the use of such resources to further its own objectives, rival in terms of scope and implications traditional economic exchanges among nations.

The unprecedented expansion of the multinational corporation has evoked a strong interest in this phenomenon among scholars, the mass media and the general public. While much information and understanding have been gained from this surge in interest, the complexity of the subject and the controversy that surrounds it call for serious analysis lest myths should prove more appealing than facts and emotions stronger than reason. Multinational corporations, which are depicted in some quarters as key instruments for maximizing world welfare, are seen in others as dangerous agents of imperialism. The basic facts and issues still need to be disentangled from the mass of opinion and ideology and a practical programme of action still awaits formulation.

The deliberations of the United Nations on this subject reflect the preoccupations and currents of thought of the times. The United Nations Economic and Social Council, in unanimously adopting resolution 1721 (LIII) in July 1972, formally and explicitly recognized the importance of multinational corporations as a subject for comprehensive study and possible action by the world organization. Many previously adopted decisions had already had some bearing on the matter. Recent the social consequences of the activities of multinational corporations was the theme of a resolution adopted by the International Labour Conference in 1971, and in 1972 the Third Session of the United Nations Conference on Trade and Development adopted a resolution on restrictive business practices (resolution 73 (III)). Many other resolutions and decisions adopted within the United Nations family, on topics ranging from the flow of resources to the developing countries through permanent sovereignty over natural resources and the transfer of technology to the importance of the promotion of exports of manufactures for the over-all strategy of development, are in one way or another related to the present subject. 1/ Partial and indirect investigation, however, is no longer enough. Although progress can often be accelerated by a more limited approach, in this case the full import of the subject can best be appreciated by taking a broad perspective.

The political and social dimensions of the problem of multinational corporations are only too apparent. The United Nations present involvement in the subject was in fact prompted by incidents involving certain multinational corporations. The concern and excitement occasioned by those incidents

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1/ See annex I for excerpts from resolutions of United Nations bodies relevant to the issue of multinational corporations.

testifies that the general public is no longer willing to stand by passively. The degree of uncertainty that exists regarding the way in which the power of the multinational corporations may be exercised and what the reactions and consequences are likely to be is no longer acceptable. Despite the considerable and transnational power which multinational corporations possess they, unlike governments, are not directly accountable for their policies and actions to a broadly based electorate. Nor, unlike purely national firms, are the multinational corporations subject to control and regulation by a single authority which can aim at ensuring a maximum degree of harmony between their operations and the public interest. The question at issue, therefore, is whether a set of institutions and devices can be worked out which will guide the multinational corporations' exercise of power and introduce some form of accountability to the international community into their activities.

The multinational corporations have developed distinct advantages which can be put to the service of world development. Their ability to tap financial, physical and human resources around the world and to combine them in economically feasible and commercially profitable activities, their capacity to develop new technology and skills and their productive and managerial ability to translate resources into specific outputs have proven to be outstanding. The importance of the foreign private sector to the development of developing countries was recognized in the International Development Strategy for the Second Development Decade unanimously adopted by the United Nations General Assembly in 1970. At the same time, the power concentrated in their hands and their actual or potential use of it, their ability to shape demand patterns and values and to influence the lives of people and policies of governments, as well as their impact on the international division of labour, have raised concern about their role in world affairs. This concern is probably heightened by the fact that there is no systematic process of monitoring their activities and discussing them in an appropriate forum.

The important contribution that such firms can make to world welfare needs to be understood in the context of the objectives that they pursue. While their operations are often global, their interests are corporate. Their size and spread imply increased productive efficiency and reduction of risks, both of which have positive effects from the point of view of the allocation of resources. Yet, their predominance can often create monopolistic structures which reduce world efficiency and may displace or prevent alternative activities. The concentration of multinational corporations on the production and promotion of certain types of products and services not only influences consumption patterns but, in developing countries, often responds mainly to the demand of small segments of the population.

The divergence in objectives between nation-states and multinational corporations, compounded by social and cultural factors, often creates tensions. Multinational corporations, through the variety of options available to them, can encroach at times upon national sovereignty by undermining the ability of nation-states to pursue their national and international objectives. Moreover, there are conflicts of interest regarding participation in decision-making and the equitable division of benefits between multinational corporations and host as well as home countries. In recent years the situation has been sharpened, on the one hand by changes in the internal socio-political conditions of many countries, and on the other, by shifts in bargaining positions. As a result, existing arrangements are frequently questioned and new ones sought.

Although the issues in regard to multinational corporations must be understood within the socio-political context, they are closely bound up with the international economic system. However sacred and inviolable national sovereignty may be from the political point of view, few national boundaries correspond to economic demarcation lines and few states are self-contained economic entities. Most nations would find it both necessary and useful to have some system of international exchange not only for goods and services, but also for finance and technology. While the conditions in the real world hardly permit an ideal system of international exchange and co-operation, a practical economic solution is required in which the political entities, differing widely in endowment, whether by accident or design, can co-operate to reconcile their conflicting interests, harmonize their policies for their mutual benefit, and achieve a greater measure of international distributive justice.

There is, of course, no unique solution whereby the interests of all parties can be reconciled. Nor is there a ready means of attaining the accepted goal of greater distributive justice in the international context. Few can doubt, however, that the issues raised by the multinational corporation have a direct bearing, for good or ill, on international relations and call for urgent international attention. Many will agree that some measure of accountability of multinational corporations to the international community should be introduced. Many will also agree that the vast capabilities of multinational corporations can be put to the service of mankind. Because of the intrinsic difficulty of the subject and the practical obstacles in the way of arriving at speedy solutions, it may be useful to regard the present study as the beginning of a series of efforts. Immediate steps can be taken in the short run where a consensus is found to exist, and at the same time a start can be made towards longer-run measures that will demand further investigation and negotiation. In order to facilitate discussion some possible lines of action are proposed below, preceded by a review of basic information and an assessment of the issues involved.

I. CONCEPTS AND DIMENSIONS

The upsurge in interest in the multinational corporation has been accompanied by an expansion of the vocabulary relating to it. The various terms and concepts used have often been developed to suit particular purposes at hand and are subject to individual preferences. In empirical research, moreover, which in most cases has to rely on data derived from administrative records in which the concepts are not uniform, differing definitions have been employed. A review and clarification of these concepts and definitions will help to avoid unnecessary controversy and facilitate an understanding of the true dimensions of multinational corporations.

Any description, however, of the dimensions of multinational corporations faces manifold problems. The difficulties stem not only from the limited availability of conventional data, but also from the fact that even when they are available the data do not adequately measure the phenomenon of multinational corporations. Neither the number, sales nor earnings of affiliates, nor capital flows and investment stock, particularly taken separately, can fully measure the size of the operations of the multinational corporation. The large incidence of inter-affiliate transactions and attendant transfer pricing can distort the real picture, as can other practices involving capitalization, accounting procedures and control of local resources. Until sufficient methodological work and collection of standard information has been carried out the figures must be treated with caution and their interpretation is subject to a considerable margin of uncertainty.

Definitions 1/

While the terms "corporation", "firm" and "company" are generally used interchangeably, the term "enterprise" is sometimes preferred as clearly including a network of corporate and non-corporate entities in different countries joined together by ties of ownership. In the present context, "corporation" is not used as a legal term but rather in accordance with common usage as reflected in the wording of the Economic and Social Council resolution 1721 (LIII).

The term "multinational" signifies that the activities of the corporation or enterprise involve more than one nation. Certain minimum qualifying criteria are often used in respect of the type of activity or the importance of the foreign component in the total activity. The activity in question may refer to assets, sales, production, employment, or profits of foreign branches and affiliates.

A foreign branch is a part of an enterprise that operates abroad. An affiliate is an enterprise under effective control by a parent company and may

1/ See selected definitions in annex II.

be either a subsidiary (with majority or sometimes as little as 25 per cent control of the voting stock by the parent company) or an associate (in which case as little as 10 per cent control of voting stock may be judged adequate to satisfy the criterion). In the broadest sense, any corporation with one or more foreign branches or affiliates engaged in any of the activities mentioned may qualify as multinational. More strictly, a particular type of activity (e.g. production), a minimum number of foreign affiliates (e.g. six), or a minimum foreign share of activity (e.g. 25 per cent of sales or assets) may be added as conditions for qualifying for the definition.

Such concepts are amenable to further variations according to the main characteristics and motivations of multinational corporations and may be rather theoretical in character. Some authors emphasize the fact that, despite the growing importance of foreign activities, many corporations are basically home-country oriented concerns that operate abroad, and prefer the terms "international" or "transnational". On the basis of their orientation, corporations are also distinguished into "ethnocentric" (home-country oriented), "polycentric" (host-country oriented) or "geocentric" (world-oriented). When internationalism is taken to the limit the corporation may be considered "a-national" and hence be referred to as "denationalized", "supranational" or a "cosmocorp".

Because of the broad frame of reference of this survey, in accordance with the terms of the Economic and Social Council resolution, the term "multinational corporation" is used here in the broad sense to cover all enterprises which control assets - factories, mines, sales offices and the like - in two or more countries. This definition has the advantage that no important aspect of the phenomenon (e.g. finance or services) or of the problem (e.g. questions associated with nationally-oriented enterprises or small firms) is arbitrarily excluded. It also permits maximum and flexible use to be made of existing data which are variously defined and not generally amenable to reclassification to suit a more restricted definition. At the same time, as the data that follow will indicate, there is a very high degree of concentration in multinational corporations, with a relatively few firms accounting for the bulk of their activities. Thus, a fairly good picture of the situation can frequently be obtained by concentrating on the largest and most important firms, especially those engaged in extractive and manufacturing activities.

One implication of the present definition is that multinational corporations are responsible for most foreign direct investment. Nevertheless, a study of multinational corporations must be distinguished from the study of foreign direct investment, chiefly because the most important questions to be asked in connexion with multinational corporations are not limited to and in some cases are even independent of financial flows. They concern a host of other activities also, such as the transfer of technology as well as goods, the provision of managerial services and entrepreneurship and related business practices, including co-operative arrangements, marketing restrictions and transfer pricing. As the operations of multinational corporations have expanded and evolved, the elements not directly related to the provision of capital have become increasingly important. Moreover, these operations can only be understood as components of an international corporate system. As will be demonstrated below, parent companies that own foreign-based enterprises typically control these enterprises' activities and determine the way in which financial, technical and managerial resources are allocated around the world and the resulting mix of the entire package.

Size, patterns and trends

Size and concentration 2/

Although quantitative information on multinational corporations leaves much to be desired and the wide disparities in methods of estimation among corporations, economic sectors and countries introduce a considerable margin of error in the interpretation of all the essential economic magnitudes, a few general characteristics are discernible. A central characteristic of multi-national corporations is the predominance of large-size firms. Typically, the amount of annual sales runs into hundreds of millions of dollars. Each of the largest four multinational corporations has a sales volume in excess of $10 billion, and more than 200 multinational corporations have surpassed the one billion level.

Indeed, for most practical purposes, those with less than $100 million in sales can safely be ignored. 3/ The very size of these corporations as compared with other economic entities, including the economies of many nations, suggests an important source of power. Moreover, there are strong indications that the multinational corporations have grown dramatically, especially during the last decade. As a result, both their absolute and relative size has expanded. 4/

Closely related to their large size is the predominantly oligopolistic character of multinational corporations. 5/ Typically, the markets in which they operate are dominated by a few sellers or buyers. Frequently they are also characterized by the importance of new technologies, or of special skills, or of product differentiation and heavy advertising, which sustains or reinforces their oligopolistic nature.

2/ See tables 1 to 10 in annex III for sources and explanation of quantitative information cited in this section. Sources for other quantitative information cited in the text and not contained in tables are indicated in separate footnotes in the text.

3/ Raymond Vernon, Sovereignty at Bay: The Multinational Spread of United States Enterprises (New York, 1971), p. 4.

4/ See section on dimensions in the world spectrum, below.

5/ Frederick T. Knickerbocker, Oligopolistic Reaction and Multinational Enterprise (Boston, 1973).

Another characteristic of the very large multinational corporations is their tendency to have a sizeable cluster of foreign branches and affiliates. Although almost half of some 7,300 multinational corporations have affiliates in one country only, nearly 200 multinational corporations, among the largest in the world, have affiliates in twenty or more countries. The establishment of subsidiaries or the making of foreign investments, particularly in industries in which there is a high degree of industrial concentration, generally tends to be bunched in periods of relatively strong economic activity. These activities frequently reflect the need to react to or counter the activities of other multinational corporations.

A further central characteristic of multinational corporations is that they are in general the product of developed countries. Although the non-availability of statistical information on multinational corporations in many developing countries obscures the over-all picture, this fact in itself reflects the high degree of concentration of the location of parent companies in the developed countries. Eight of the 10 largest multinational corporations are based in the United States. All in all, the United States alone accounts for about a third of the total number of foreign affiliates, and together with the United Kingdom, the Federal Republic of Germany and France, it accounts for over three-quarters of the total.

The high degree of concentration of the origin of multinational corporations in the developed countries is even more clearly revealed by the distribution of the stock of foreign direct investment as measured by estimated book value. Of a total estimated stock of foreign investment of about $165 billion, most of which is owned by multinational corporations, the United States accounts for more than half, and over four-fifths of the total is owned by four countries, the United States, the United Kingdom, France and the Federal Republic of Germany.

Moreover, foreign direct investment tends to be concentrated in a few firms within each home country. For the United States, about 250 to 300 firms account for over 70 per cent. For the United Kingdom, over 80 per cent of the total is controlled by 165 firms. For the Federal Republic of Germany, 82 firms control over 70 per cent and the nine largest foreign investors alone control 37 per cent of the total. In the case of Japan, although there are some giant firms active abroad, many small firms appear to have participated in foreign investment activities.

The size of affiliates varies with the sector and area of operation. In the natural resources sector, for example, affiliates appear to be three to four times larger than in manufacturing. In the petroleum sector and in trade the average size of affiliates is somewhat larger in developing countries than in developed. In manufacturing, the size of affiliates in developing countries is only half that in developed, whereas in public utilities it is double.

Some changes in this pattern appear to have occurred over the last two decades. The size of United States affiliates in developed market economies doubled between 1950 and 1966. In the European Community the increase was almost threefold and in Japan more than fourfold. On the other hand, no change was recorded in the average size of United States affiliates in developing countries, except in Africa where the United States presence had previously been very limited. A similar trend suggests itself among United Kingdom affiliates, where an increase in average size in the developed market economies has not been matched by an increase in the size of affiliates in developing countries. The pattern reflects the fact that affiliates in developing countries often serve the local markets only, especially in the case of import-substituting manufactures, while the relatively larger affiliates in developed countries frequently serve bigger regional as well as national markets.

The dramatic growth of multinational corporations in the postwar period has been accompanied by unprecedented growth in the number of affiliates, the levels of capital flow and the stock of investment. Between 1950 and 1966, the number of United States affiliates increased three times, from 7,000 to 23,000. The number of affiliates of the 187 main United States multinational manufacturing corporations increased almost 3.5 times during the same period. The growth of United Kingdom affiliates during this period was less dramatic, possibly a reflection, among other factors, of the sluggish growth of the economy and the longer history in the United Kingdom of direct investment abroad. In the first twenty years after the Second World War, the number of affiliates less than doubled. In contrast, the more recent entry of Japan into the field has been marked by a rapid rate of growth in the number of affiliates. Although no precise data exist, there are indications that the growth of French affiliates was somewhat higher than those of the United Kingdom, while affiliates of the Federal Republic of Germany are growing more rapidly than those of the United States.

The growth of foreign affiliates has been accompanied by an increase in direct investment and the accumulated stock of foreign direct investment. During the last decade, the flow of direct investment from 13 countries of the Organisation for Economic Co-operation and Development rose from $2.9 billion to $7.9 billion a year. Among the countries with an above-average rate of increase were Japan, the Federal Republic of Germany, Italy, the Netherlands and the Scandinavian countries.

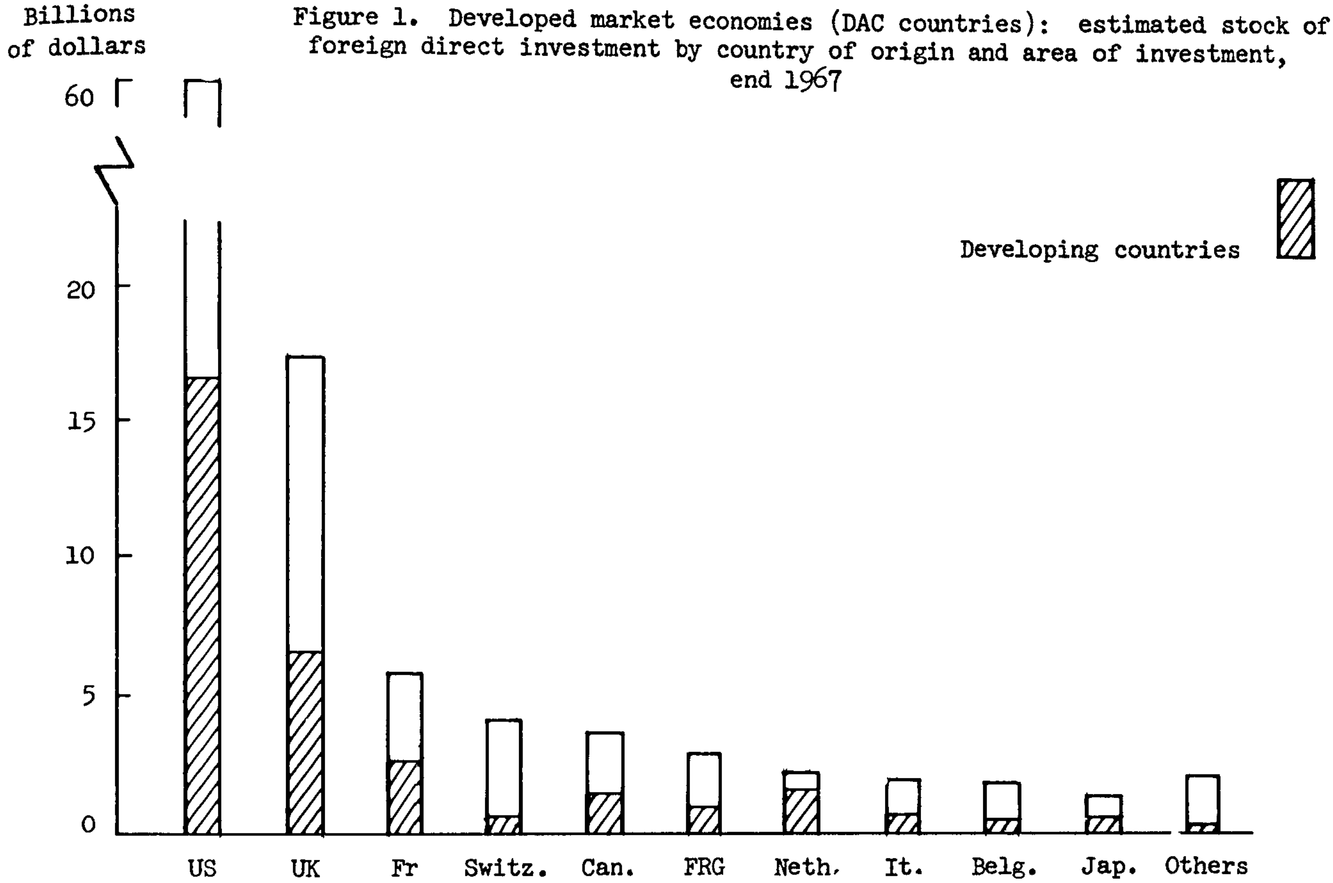
The growth of investment flow has been reflected in the increase in its cumulative stock. Between 1960 and 1971, the book value of United States direct investment increased from $33 to $86 billion and that of the United Kingdom from $12 to $24 billion. The most dramatic increase, from less than $300 million to approximately $4.5 billion, was registered by Japan - a fifteen-fold rise. Recent indications show that this pace has continued if not accelerated. Almost equally impressive was the performance of the Federal Republic of Germany, which exhibited an almost tenfold increase of investment stock to $7.3 billion by 1971.

Geographical distribution 6/

Although the network of multinational corporations is world-wide, the bulk of their activities is located in the developed market economies. Over two-thirds of the estimated book value of foreign direct investment is located in this area where the advanced economic level and similarities in institutional and social structures have facilitated the spread of the multinational corporate system.

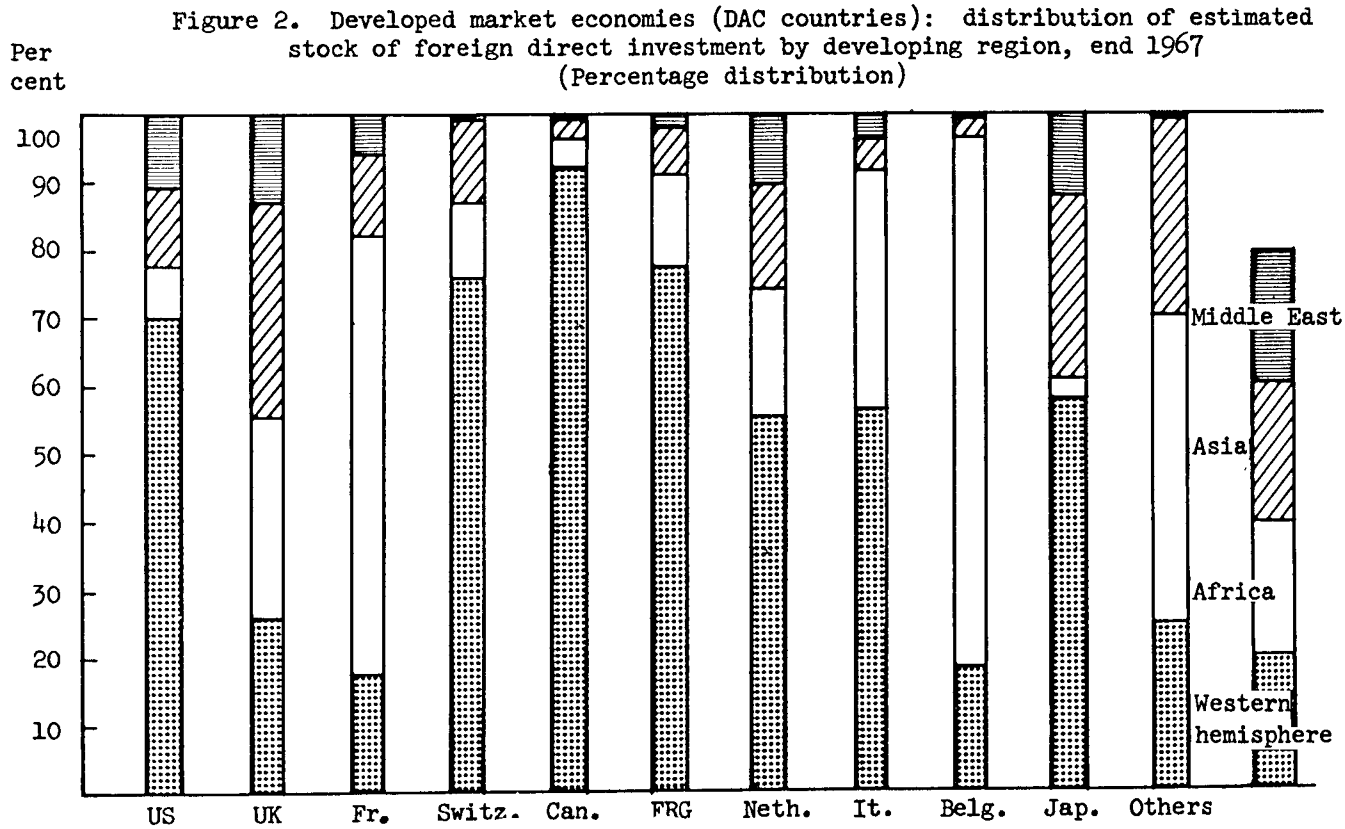
6/ See also tables 11 and 12 in Annex III and figures 1 and 2 in the text. The discussion of the distribution of affiliates in this section refers to affiliate "links" as defined in the tables, except in the case of the United States

Figure 1. Developed market economies (DAC countries): estimated stock of foreign direct investment by country of origin and area of investment, end 1967



<u>Source</u>: Table 12.

Figure 2. Developed market economies (DAC countries): distribution of estimated stock of foreign direct investment by developing region, end 1967
(Percentage distribution)



<u>Source</u>: Table 14.

Although the developing countries have received only about a third of the total estimated stock of foreign direct investment, that is, only half as much as the developed countries, the presence of foreign multinational corporations in the developing countries is generally of greater relative significance, since their economies account for much less than half of that of developed market economies.

Among the developing countries, the western hemisphere has attracted an estimated 18 per cent of the total stock of foreign direct investment, Africa 6 per cent, and Asia and the Middle East 5 and 3 per cent respectively. The distribution of affiliates (links) is roughly similar. Country variations reveal certain special relationships between the multinational corporations of some developed market economies and countries of investment.

The corporations of some of the smaller European countries with no colonial experience, such as Austria, Switzerland and the Scandinavian countries, have a limited spread in the developing world. Faced apparently with a limited domestic market, and at times with trade barriers, corporations in these countries have invested in other developed countries with a view to enlarging the market for their products. On the other hand, the developing countries' share in the number of affiliates as well as the estimated stock of investment is relatively high for Portugal, France, the United Kingdom, Italy, Belgium and the Netherlands. This pattern of distribution reflects the importance of former colonial ties. Thus, two-thirds of the French and Belgian affiliates in developing countries are in Africa, most of them in French-speaking countries. The more balanced distribution of the network of affiliates and stock of investment of the United Kingdom parallels to a large extent the geographical spread of the Commonwealth. One third of United Kingdom affiliates, for instance, are in developing countries, 40 per cent of them in Africa and 32 per cent in Asia. Of the total stock of United Kingdom direct investment, 38 per cent is in developing countries and is similarly geographically diversified. Sixty per cent of it is equally distributed between Asia and Africa, 26 per cent is in the western hemisphere and 13 per cent - above the average of 9.5 for all Development Assistance Committee countries - is in the Middle East. The Japanese presence in the developing countries is also pronounced. Sixty per cent of affiliates and investment stock is located in these countries, with a strong concentration in Central and South America and Asia. Central and South America is also the preferred region for affiliates as well as book value of investment in the case of the Federal Republic of Germany. Canada, in particular, and Switzerland also, shows a high concentration in the developing countries of the western hemisphere, while the Australian presence is felt almost exclusively in Asia.

A little more than one quarter of United States affiliates and of the stock of direct investment is located in developing countries. Central and South America account for about 70 per cent of the number of United States affiliates and of the book value of investment in developing countries, with the rest more or less equally distributed among Africa, Asia and the Middle East.

Further light can be shed on this distribution of foreign direct investment among developing areas and the pattern of relationships between home and host countries by examining the distribution of investment by industrial sector.

Distribution by industry: natural resources and manufacturing[7]

Historically, the activity of multinational corporations developed in the extractive and public utility areas before it became prominent in manufacturing. By the turn of the century, European and North American investors, attempting to secure their markets in petroleum, a field in which oligopolistic conditions wer soon formed, had extended their vertical integration from the source of the supp to marketing. The entrenched United Kingdom and French positions in the Middle East were successfully challenged by United States corporations. Cartel arrangements concluded between multinational corporations before the Second World War were weakened in later years as the discovery of rich new fields in various part of the world, in developing countries especially, encouraged the entry of new corporations into the field and brought about a large degree of market interpenetration among the largest multinational corporations in petroleum. [8] As the technology of production has become standardized and patents have expired, national corporations in developing countries, operating independently or in joint ventures with foreign multinational corporations, have been moving increasingly towards downstream vertical integration.

Market interpenetration and partnership have diluted the pre-war international cartels in other extractive industries also, but the growth of multinational corporations experienced in the petroleum sector has not been matched by most metal industries. Where technology, economies of scale and market contr by the multinational corporations do not constitute formidable barriers, and the geographical distribution of the raw material source is limited, as in the case copper, host countries have at times succeeded in increasing their participation or even wresting control from foreign multinational corporations. In other industries, such as aluminium, where not all these conditions are present, multinational corporations continue to play a primary role.

Manufacturing activities abroad, on the other hand, appeared later than operations in natural resources, either as the processing of raw materials or as the production of consumer goods. It appears that, initially, manufacturing operations increased faster in developed countries, later in developing countrie and in the last ten years their growth has again been more dynamic in developed countries, especially in western Europe. Industrial sectors involving high technical skills have witnessed the fastest growth.

Manufacturing is at present the major activity of multinational corporation It represents a little more than 40 per cent of the total estimated stock of foreign direct investment of the main developed market economies. Petroleum

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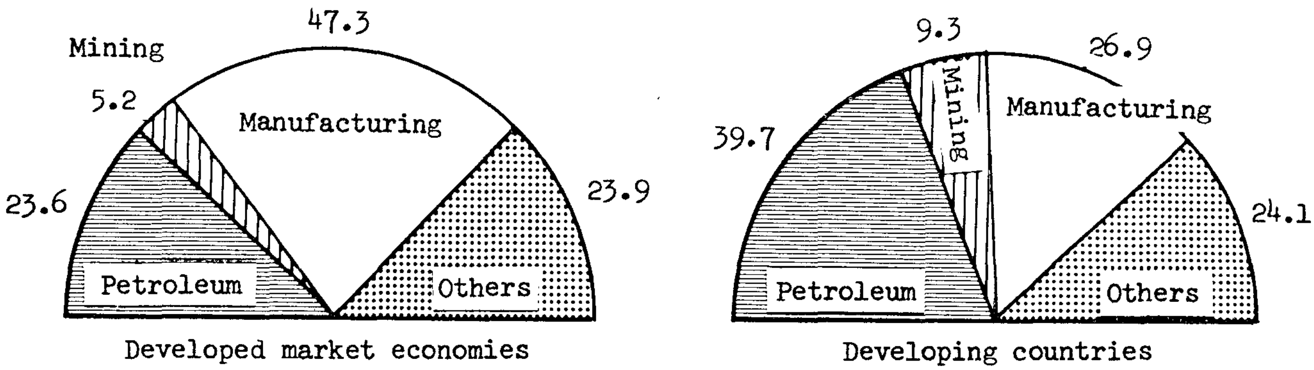
7/ See also tables 13 to 15 in annex III for sources and explanation of quantitative information cited in this section. See also figures 3 and 4 in the text.

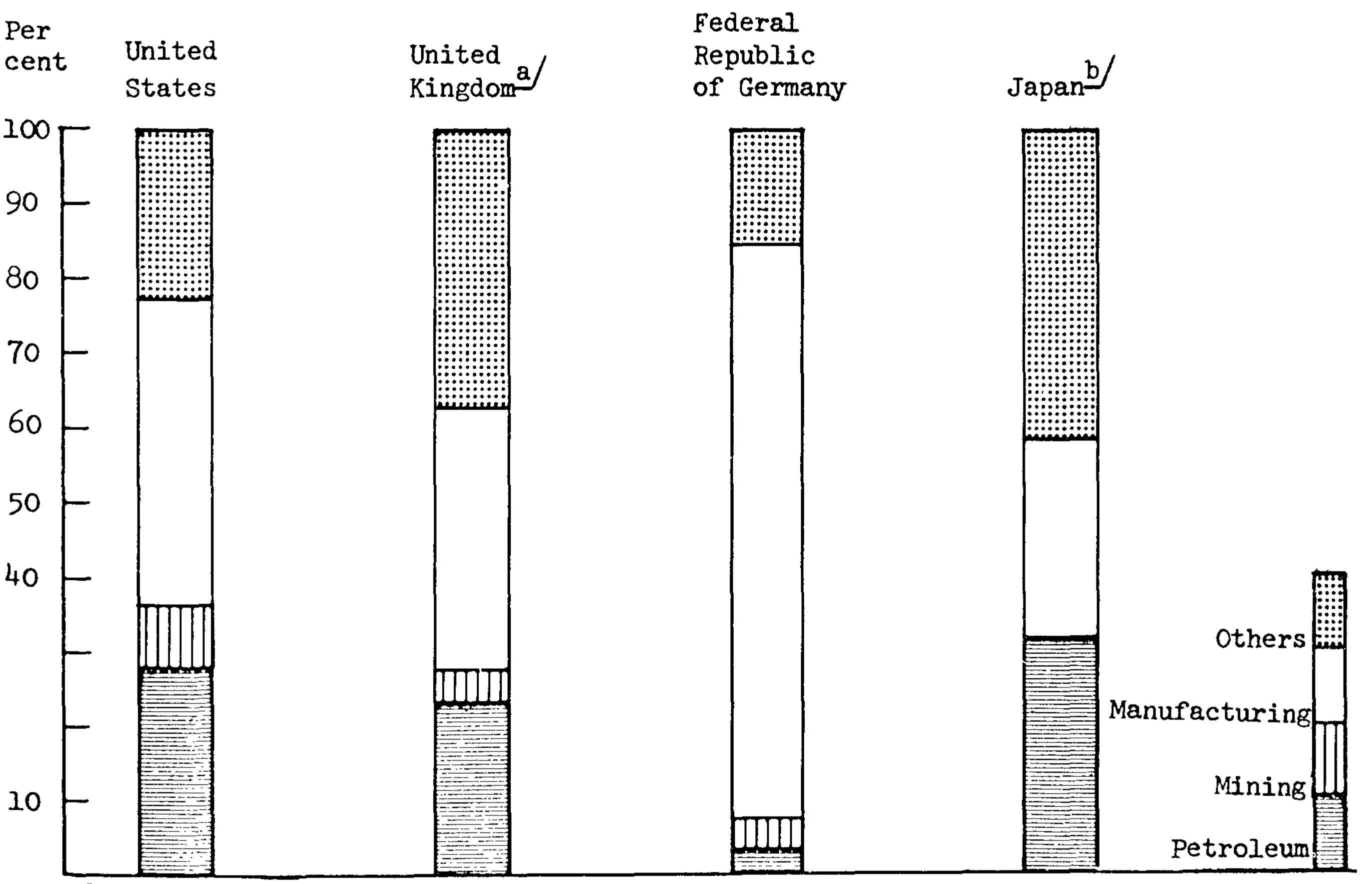
8/ The nine largest United States multinational corporations in petroleum had crude oil operations in 1938 in 40 countries and in 1967 in 96 countries. Over the same period their subsidiaries in all types of operations related to petroleum increased from 351 to 1,442. Vernon, _op. cit._, p. 32.

Figure 3. Developed market economies (DAC countries): estimated distribution of estimated stock of foreign direct investment by sector and area, end 1966
(Percentage distribution)



Source: Table 13.

Figure 4. Selected developed market economies: stock of foreign direct investment by sector, 1970
(Percentage distribution)



Source: Table 15.

Footnotes

a/ 1965.

b/ Petroleum and mining combined.

accounts for 29 per cent, mining and smelting for 7 per cent and other industries for 24 per cent. A similar picture emerges from the distribution of United States affiliates among industrial sectors.

There is an asymmetry in the industrial distribution of multinational corporation activities in developed and developing countries. Whereas in developing countries half of the estimated stock of investment is in extractive industries and a little more than a quarter in manufacturing, in developed market economies half of it is in manufacturing, and about 30 per cent is in extractive industries. 9/

Within a particular industrial sector, pronounced concentration in a few home countries is evident. Four-fifths of the estimated stock of investment in petroleum and in manufacturing originates in the United States and the United Kingdom.

Significant variations exist among major investing countries in the distribution of the stock of investment by sector. Although the largest investing countries, namely the United States and the United Kingdom, have a similar pattern in industrial distribution (one-third in extractive industries and 40 per cent in manufacturing) both Japan and the Federal Republic of Germany show a different pattern of concentration; the former in trade and extractive industries, the latter in manufacturing. Japan's foreign direct investment appears to be aimed at securing raw material sources and export markets for the parent corporations. Even its investment in manufacturing (one quarter of the total) is relatively heavily concentrated in lightly processed raw materials such as lumber and pulp and low technology industries such as textiles and steel and non-ferrous metals. In contrast to the Japanese structure, almost 80 per cent of the foreign direct investment of the Federal Republic of Germany is in manufacturing and high technology products such as chemicals, electrical products and transport equipment. When compared with the dominant position of the United States and the United Kingdom in petroleum, the Federal Republic of Germany's investment in this area is almost negligible (3 per cent in petroleum and 5 per cent in mining). 10/

Concentration in high technology industries is also a characteristic of United States investment and to a lesser extent that of the United Kingdom.

9/ Investment in petroleum in developed market economies is mainly in refining and distribution.

10/ The radically different foreign direct investment structures of these countries reflect, to a certain extent, differences in endowments of factors and natural resources, in industrial competitiveness and in business traditions and orientation. In the case of Japan, the re-emergence of large trading companies and the desire to secure raw materials have played a determining role; in the case of the Federal Republic of Germany, the major factors were the competitive strength of the IG-Farben successor corporations and apparent disinterest in building up a major domestically-owned petroleum industry (approximately 90 per cent of the petroleum industry of the Federal Republic of Germany is foreign-owned).

Chemicals, machinery, electrical products and transport equipment account for half of all the manufacturing investment of the United Kingdom and almost 60 per cent of that of the United States. The technological strength of United States multinational corporations in the major chemical and automotive industries has given that country a dominant position in these fields. Much of the expansion of United States manufacturing affiliates abroad has been in the production of "skill-oriented" products, in which research and development is relatively a high percentage of sales and where an oligopolistic structure is prevalent. 11/

Multinational corporations have also been active recently in the service sector, especially in banking, tourism and consulting. Banking in particular has grown spectacularly in recent years. Between 1965 and 1972, United States banks more than tripled their foreign locations from 303 to 1,009. In 1972 alone, United States banks opened 106 foreign locations (i.e. branches, representative offices and agencies, affiliates and subsidiaries) while in the same year Japanese banks opened 25 new facilities, bringing the total to 145. The total number of foreign facilities of United Kingdom banks in 1972 amounted to 192, those of the Federal Republic of Germany to 103 and those of France to 91. 12/ Foreign deposits represent an increasing share of total deposits of United States multinational banks. For example, for the larger New York-based banks foreign deposits increased from 8.5 per cent of the domestic deposits in 1960 and 33.6 per cent in 1968 to 65.5 per cent in 1972. 13/

The expansion of the Eurocurrency market to $100 billion by the end of 1972, coupled with the phenomenal expansion of overseas branches, especially of United States banks, provides a readily available source of funds that can be shifted internationally, as well as the mechanism through which such shifts can be made. At the same time, they provide an important source of credit in several areas of the world, over and above what can be supplied by local banks. The potential implications of these sources of funds are discussed in greater detail in Chapter III.

Ownership patterns 14/

By and large, multinational corporations exercise effective control over their foreign affiliates through complete or majority ownership, although at times such control can be exercised from a minority position. At least 80 per cent of United States affiliates and 75 per cent of United Kingdom affiliates are either wholly-owned or majority-controlled. In terms of stock of investment, these two countries have placed about 90 per cent in affiliates which are at least majority-owned. This desire for majority ownership and

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11/ Vernon, op. cit., p. 63, and also the section on technology and skill below.

12/ Data supplied by the Chase Manhattan Bank.

13/ Frank Mastrapasqua, U.S. Expansion via Foreign Branching: Monetary Policy Implications (New York, 1973), pp. 23-25.

14/ See also tables 16 to 18 in annex III and the section on profit management and ownership policies below.

control appears to be a general characteristic of multinational corporations from other home countries, except in the case of Japanese multinational corporations, where a somewhat more sizeable proportion of affiliates and stock of investment are minority-owned joint ventures. This difference in the ownership pattern is apparently influenced by differences in methods of control as well as in the industrial and the geographical distribution of foreign activities. The predominance of trading activities and light industries in the case of Japanese multinational corporations suggests that relatively small affiliates may be adequate in many cases. Moreover, since a relatively high proportion of Japanese investment - made mostly in recent years - is located in developing countries, the ownership pattern may also have been influenced by a tendency of some Japanese multinational corporations to maintain a relatively low profile in some of those countries. This geographical influence on ownership patterns is also suggested by the somewhat lower share of wholly-owned affiliates in the total number of affiliates of United States corporations in developing countries as compared with that in developed countries. Over the last three decades, a slight increase in the proportion of minority ownership, particularly in developing countries, is suggested by United States data. There is also an indication that the longer the life of an affiliate, the more likely is it to be wholly-owned. This tendency can, of course, be offset by pressures from host countries, as exemplified by recent trends towards increased local ownership in the OPEC and other countries.

Dimensions in the world spectrum 15/

The enormous size and steadily growing importance of multinational corporations are clearly revealed when viewed in the context of world economic activities. Although the usual comparison of gross annual sales of multinational corporations with gross national product of countries exaggerates the relative importance of the activities of multinational corporations, the general conclusion that many multinational corporations are bigger than a large number of entire national economies remains valid. Thus, the value-added by each of the top ten multinational corporations in 1971 was in excess of $3 billion - or greater than the gross national product of over 80 countries. The value-added of all multinational corporations, estimated roughly at $500 billion in 1971, was about one-fifth of world gross national product, not including the centrally planned economies.

International production, defined as production subject to foreign control or decision and measured by the sales of foreign affiliates of multinational corporations has surpassed trade as the main vehicle of international economic

15/ See also table 19 in annex III.

exchange. It is estimated that international production reached approximately $330 billion in 1971. 16/ This was somewhat larger than total exports of all market economies ($310 billion).

Since the rate of growth of international production is estimated to have exceeded that of world gross domestic product or world exports, an increasing share of world output would be generated by the foreign production of multinational corporations if recent trends were to continue. 17/ However, future developments will depend very much on the extent to which the problems raised by the operations of multinational corporations are dealt with by appropriate national and international measures which will permit continued growth in desired areas and directions, or by restrictive measures which will obstruct further growth. In addition, changing relationships between different groups of countries, for example increased co-operation and exchange between developed market economies and centrally planned economies, will influence the direction of multinational corporation activities.

16/ Estimates of international production made in the literature vary according to the methodology used. J. Polk, on the basis of sales associated with direct investment and portfolio investment, estimates international production at $420 billion for 1968, see Judd Polk, "The Internationalization of Production", mimeo (United States Council of the International Chamber of Commerce, 1969); J. Behrman, on the basis of sales associated with direct and portfolio investment as well as licensed rights, estimates international production at $450 billion for 1971, see J.N. Behrman, "New Orientation in International Trade and Investment" in Pierre Uri, ed. Trade and Investment Policies for the Seventies: New Challenges for the Atlantic Area and Japan (New York, 1971).

Both authors, without adjusting for value added, evaluate the internationalized gross domestic product of market economies to be 23 per cent for 1968 (Polk) and 22 per cent for 1971 (Behrman). If the adjustment is made these shares would be considerably lower. S. Robock and K. Simmonds in calculating foreign production do not include portfolio investment or licensed rights; their figure for foreign production for 1970 is $230 billion, representing approximately 11 per cent of market economies' gross domestic product. See S.H. Robock and K. Simmonds, International Business and Multinational Enterprises, (Homewood, Illinois, 1973).

17/ Whereas between 1961 and 1971 gross domestic product of market economies at current prices rose at an annual average rate of 9 per cent, international production, estimated on the basis of sales at current prices of United States foreign affiliates between 1962 and 1968, rose at an annual average rate of about 13 per cent.

Dimensions in developed market economies[18]

If the world-wide integrative role of the multinational corporation is debatable, its importance to the inter-relationship of the developed market economies is beyond doubt. Most of the developed market economies serve simultaneously as home and host countries. The United States, however, acts primarily as a home country, while certain others, such as Cyprus, Greece, Spain, Turkey, New Zealand and South Africa, are almost exclusively hosts to foreign multinational corporations.

During the period 1968-1970, inward direct investment flows were on the average only 20 per cent of the outward flows for the United States, 30 per cent for Japan, 63 per cent for the United Kingdom and the Federal Republic of Germany and 90 per cent for the Netherlands. The reverse is the case with most of the other countries. In France inward direct investment flows were almost twice as high as the outward flows, in Italy and Canada a little more than twice, in New Zealand, three times higher, in Belgium, four times and in Australia, Spain, Portugal and South Africa, 7.5 to 12 times greater than outward flows.

As far as the United States is concerned, the preponderant position in the economy is occupied by domestic multinational corporations, rather than foreign multinational corporations whose presence is not as yet significant. More than one-third of the manufacturing output of the United States is represented by the top 187 United States multinational manufacturing corporations. In certain industrial sectors, such as automotive, pharmaceutical and fabricated metal products, the consolidated sales of these corporations account for more than three-fourths of the sales of all United States firms, and in petroleum refining, chemicals, rubber and electrical machinery, for more than one-half. A larger group, of 264 multinational corporations, is responsible for half of all United States exports of manufactures. In 1971, United States multinational corporations generated an outflow of capital of $4.8 billion for direct investment abroad and an inflow of approximately $9 billion in interest, dividends, royalties and management fees. Furthermore, given the practice of extensive local borrowing, their control of overseas assets is substantially higher than the book value of long-term equity and debt held abroad. 19/

18/ See also tables 20 to 25 in annex III.

19/ United States net capital exports for direct investment abroad as a share of investment outlays of United States affiliates vary considerably by year, sector and area of investment. In 1968, in western Europe, the share was less than one-third; in a sample of 125 large multinational corporations (representing one-sixth of United States industry's ex-factory sales) only 6.7 per cent of gross foreign investment was financed through a net capital outflow from United States parent companies, the principal source being foreign depreciation reserves, earnings and borrowings. Business International, The Effects of United States Corporate Foreign Investment, 1960-1970, (New York, 1972).

In contrast, the relative importance of foreign multinational corporations in the United States is limited. Foreign investment in the United States, while far from negligible, is mainly portfolio investment. The European investment in the United States, for instance, is about as high as the United States investment in Europe; but whereas 80 per cent of the latter is in direct investment, 70 per cent of the European investment in the United States is in portfolio form, almost equally divided between stocks and bonds. Thus, the book value of United States direct investment in other developed countries, with the exception of the Netherlands, is several times higher than the book value of direct investment of those countries in the United States. 20/ Multinational corporations from the United Kingdom, the Netherlands and Switzerland are the leading investors in the United States, accounting for about 60 per cent of total direct foreign investment. Although European and, more recently, Japanese corporations have penetrated the petroleum industry, manufacturing and the service sector in the United States, there is no single industry in which they have assumed a preponderant role.

With the exception of Japan, the reverse is true in the case of the other developed economies, where foreign affiliates account for an important share of output, investment, employment or exports.

In Japan, where regulatory policies have restrained foreign entry, firms with foreign capital participation represented in 1968 only 2.3 per cent of total fixed assets and 1.65 per cent of total sales in manufacturing. The share was much higher in the oil industry (60 per cent) and in rubber (19 per cent). 21/ Given the recent Japanese liberalization measures, the share of foreign affiliates (more than half of which are joint ventures) must certainly have increased.

In Canada, at the other end of the spectrum, the presence of foreign multinational corporations is pervasive, representing one-third of total business activity. Foreign affiliates account for 60 per cent of manufacturing output and 65 per cent of output in mining and smelting. The United States accounts for 80 per cent of total direct foreign investment and the United Kingdom for most of the rest. In the United Kingdom, United States affiliates represent almost 70 per cent of the total stock of foreign direct investment. They account for 13 per cent of total manufacturing output, employ 9.2 per cent of the labour force and are responsible for one-fifth of all manufacturing exports. 22/ In Belgium, foreign affiliates are responsible for a quarter of the gross national

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20/ The United States' stock of direct investment in the European Community is 3.5 times higher than the Community's investment in the United States; it is 7 times more in the case of Canada and almost 70 times more in the case of Latin America. Rainer Hellmann, The Challenge to United States Dominance of the Multinational Corporation (New York, 1970).

21/ Japanese Trade and Industry Ministry, Special Report on Foreign Owned Firms in Japan (Tokyo, 1968).

22/ John Dunning, United States Industry in Britain (London, Economists' Advisory Group Research Study, Financial Times, 1972).

product, one-third of total sales, 18 per cent of employment and 30 per cent of exports. More than half of the total foreign direct investment is accounted for by United States-controlled affiliates. 23/ In the Federal Republic of Germany, Italy and France, foreign penetration is less pronounced, with the United States accounting for at least half of it, except in the case of France where its share is less than a third. 24/

The importance of multinational corporations in the developed market economies varies considerably by industrial sector. There is a high concentration in a fairly small number of industrial sectors characterized by fast growth, export-orientation and high technology, sectors which are also regarded as key sectors by the host countries. It appears that in most of the developed market economies foreign-owned firms own very high (75 - 100 per cent) or high (50 - 75 per cent) sector shares in industries characterized by high technology. Thus, there is very high or high foreign presence in the oil refining industry in Canada, the Federal Republic of Germany and Japan. Chemicals are under very high foreign ownership in Canada, high in Australia, and medium (25 to 50 per cent) in the Federal Republic of Germany and Norway. The computer and electronics industries are under very high foreign ownership in the Federal Republic of Germany and the United Kingdom. Transport equipment is under very high foreign ownership in Canada and Australia, and medium in the United Kingdom. Electrical machinery is highly owned by foreign corporations in Austria, the Federal Republic of Germany and Canada.

The presence of United States multinational corporations is also more pronounced in some sectors than in others. For instance, they control more than half of the petroleum industry in Belgium, approximately three-fifths of the food, tobacco, oil-refining, metal manufacturing, instrument engineering, computer and technical manufacturing industries in the United Kingdom, and more than 15 per cent of the production of semiconductors and 80 per cent of computers and electronic data-processing equipment in the European Community. In the service sector, the United States presence is considerable in the hotel and recreation industries, consulting, public relations and banking. It is estimated that in 1970 there were more than 30 United States banks operating in Europe, many of them having established affiliates jointly with European banks.

23/ D. Van den Bulcke, The Foreign Companies in Belgian Industry (Ghent, Belgian Productivity Centre, 1973).

24/ The foreign share in the total nominal capital of firms in the Federal Republic of Germany was 19 per cent at the end of 1968, and in Italy in 1965 15 per cent. In France, out of a total of $707 million of direct foreign investment in 1967, the United States accounted for 30 per cent, the European Community countries for 29 per cent, and Switzerland for 22 per cent. G. Bertin, "Foreign investment in France", in Foreign Investment: The Experience of Host Countries, I. Litvak and C. Maule, eds. (New York, 1970).

Another indication of the importance of United States affiliates in developed countries is their share in the gross fixed capital formation of these countries. In Canada in 1970 it amounted to one-third, in the United Kingdom to one-fifth, in Belgium and Luxembourg and the Federal Republic of Germany to between 12 and 13 per cent, and in France 6 per cent. In certain industries, the share was much higher, e.g. in Canada it was more than 50 per cent in chemicals, fabricated metals, machinery and transportation equipment.

Dimensions in developing countries 25/

In 1968 developing countries accounted for about one third of the book value of foreign direct investment as opposed to only one sixth of world gross domestic product and one fifth of world exports, not including centrally planned economies. Half of foreign direct investment in developing countries was in the development of natural resources, a little less than one-third in manufacturing and the rest in trade, public utilities, transport, banking, tourism and other services.

Generally speaking, the relative importance of the multinational corporation in developing countries is rising in the manufacturing and services sectors and declining in the primary industries, in particular those connected with agriculture (plantations). On balance, the over-all importance of the multinational corporation is growing. As a source of the net flow of resources to developing countries, private direct investment flows from such corporations represented about one-fifth of the total in the 1960s. During the same period, this flow increased at an average annual rate of 9 per cent. In 6 out of the 12 developing countries for which data were available, the stock of foreign direct investment increased faster than that of gross domestic product. In the second half of the 1960s, the slow growth of investment in some countries is attributable to the liquidation of foreign investment through nationalization.

The relative size of the accumulated stock varies by industrial sector and country, and the share of foreign affiliates' activity in output, employment or exports varies accordingly. In some countries, the foreign content of the local economy is very high and at times concentrated in one sector, while in others it is less significant or more diversified.

In the Middle East, which accounts for 9.4 per cent of the total foreign direct private investment in developing countries, petroleum accounts for approximately 90 per cent of the total stock of foreign investment. 26/ In South America (36 per cent of the total), on the other hand, 39 per cent of

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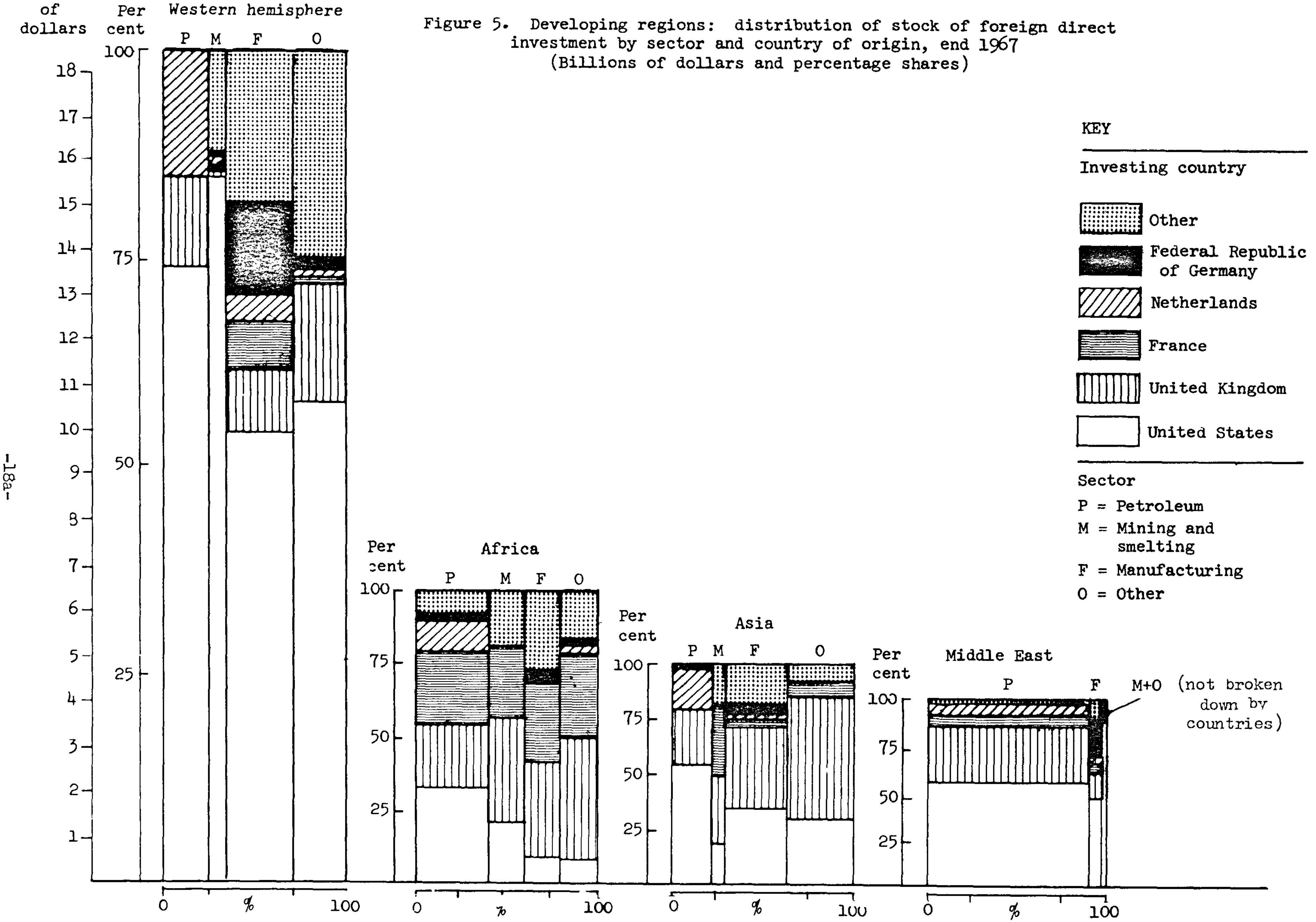
25/ See also tables 26 to 35 in annex III.

26/ The discussion on the distribution of stock of foreign direct investment in developing countries is based on rough estimates made by the Organisation for Economic Co-operation and Development. See OECD, Stock of Private Direct Investments by DAC Countries in Developing Countries, end 1967 (Paris, 1972).

Figure 5. Developing regions: distribution of stock of foreign direct investment by sector and country of origin, end 1967
(Billions of dollars and percentage shares)



Source: Tables 31 to 34.

foreign investment is in manufacturing, 28 per cent in petroleum and 10 per cent in public utilities. In Africa (20 per cent of the total), 39 per cent is in petroleum, 20 per cent in mining and smelting and 19 per cent in manufacturing. In Asia (15 per cent), manufacturing has attracted 30 per cent, petroleum 22 per cent and agriculture 18 per cent of the total foreign investment stock. In Central America (19 per cent of the total), manufacturing has attracted 31 per cent, petroleum 16 and trade 13 per cent of the total.

This aggregate picture, however, does not reveal the fact that multinational corporations have tended to concentrate in a few developing countries. Only a few developing countries have a stock of direct investment of more than $1 billion. Thus, Argentina, Brazil, India, Mexico, Nigeria, Venezuela and certain Caribbean islands, 27/ account for 43 per cent of the total stock of investment in developing countries, which is roughly the same proportion as that of their combined gross domestic product to the estimated total for all developing countries. According to OECD estimates for the end of 1967, in another 13 countries 28/ in various developing regions the stock of investment was between $500 million and $1 billion, accounting for nearly another 30 per cent of the total stock of investment in developing countries. This concentration is related to the sector in which foreign investment is predominant. In African countries and in Central and South American and Middle Eastern countries (Algeria, Libya, Nigeria, Zambia, Jamaica, Netherlands Antilles, Trinidad and Tobago, Peru and Venezuela, Iran, Kuwait and Saudi Arabia), it is the extractive industries which predominate. In all these countries, the stock of investment in either petroleum or mining exceeds $200 million. In several other countries, manufacturing is the predominant sector, more than $200 million being invested in manufacturing in Argentina, Brazil, India, Mexico and the Philippines. In India and Malaysia, investment in agriculture exceeds $200 million.

The activities of United States multinational corporations represent half of the total stock of foreign direct investment in developing countries. In certain regions, however, such as Central and South America, the United States accounts for almost two-thirds of the total stock of foreign direct investment. The rest of the stock is represented by the United Kingdom (9 per cent), Canada (7 per cent), Netherlands (5 per cent) and the Federal Republic of Germany (4 per cent). In Africa, on the other hand, the United States accounts only for one-fifth of the total stock; the United Kingdom predominates with 30 per cent, France following with 26 per cent. Belgium, the Netherlands and Italy account for 7, 5 and 4 per cent respectively. In the Middle East, the United States accounts for 57 per cent, the United Kingdom for 27 per cent and the Netherlands and France for approximately 5.5 per cent each. In Asia, the United Kingdom has the largest share (41 per cent), the United States follows with 36 per cent, France with 7 per cent and the Netherlands with 5 per cent.

27/ Leeward Islands, Windward Islands, Bahamas, Barbados and Bermuda.

28/ Algeria, Libya, Jamaica, Panama, Trinidad and Tobago, Chile, Colombia, Peru, Iran, Kuwait, Saudi Arabia, Malaysia and the Philippines.

In some developing countries where the stock of investment exceeds $500 million, the foreign affiliates of a single developed market economy account for more than 80 per cent of the stock of total investment. 29/

Data on the share of foreign multinational corporations in local production is limited. In Singapore, in 1966, affiliates from the main investing countries are estimated to have contributed one-third of the total value added in manufacturing. 30/ It has been estimated that in the mid-1960s, sales of United States enterprises alone represented 17 per cent of the gross value of industrial production of Mexico, 13 per cent of that of the Philippines and 11 per cent of that of Argentina and Brazil. 31/ In Central America, the output of foreign affiliates is estimated at 30 per cent of the output of the manufacturing sector. Among the 500 largest manufacturing firms in Brazil, foreign affiliates controlled 37 per cent of total assets. 32/ In Mexico, among middle and large-sized firms, weighted average foreign participation reached 45 per cent in 1970. Foreign participation in the output of Mexican manufacturing industries, however, reached 100 per cent in rubber products and transportation materials, and a weighted share of more than 75 per cent in industrial chemicals and tobacco in 1970, while foreign participation in textile production was only 8 per cent. 33/

Expenditures of multinational corporations on plant and equipment represent a varying share of the total gross fixed capital formation of developing countries. In 1970, the share of such expenditures by United States manufacturing affiliates was 9 per cent in Mexico and 18 per cent in Brazil. In some cases, such as electrical machinery in Brazil, the expenditure of United States affiliates on plant and equipment accounted for more than half of the total fixed capital formation in the industry. 34/

29/ In 1968, in Chile, Colombia, Panama, Peru, Philippines and Saudi Arabia, more than 80 per cent of the stock of foreign investment was owned by United States affiliates. In Zaire, 88 per cent of total investment was made by Belgian affiliates.

30/ H. Hughes and You Poh Seng, eds., Foreign Investment and Industrialization in Singapore, (Canberra, Australian National University Press, 1969), p. 192.

31/ Economic Commission for Latin America, Economic Survey of Latin America (United Nations publication, Sales No. E.72.II.G.1), p. 293.

32/ F. Fajnzylber, Sistema industrial y exportación de manufacturas: análisis de la experiencia brasilera, Economic Commission for Latin America, November 1970.

33/ See C. Vaitsos, "The changing policies of Latin American Governments towards economic development and direct foreign investment", forthcoming in Journal of World Trade Law; Carlos Bazdzeseh Parada, "La politica actual hacia la inversión extranjera directa", Comercio Exterior (Mexico City, 1972), p. 1012.

34/ United States Senate, Committee on Finance, Implications of Multinational Firms for World Trade and Investment and for United States Trade and Labor (Washington, D.C., 1973).

In addition to their dominant role in the export of products of the extractive industries, multinational corporations are in general playing an increasingly important part in the export of manufactures from developing countries. 35/ There is evidence of an over-all increase in the exports of affiliates, both as a share of total sales and as a share of total exports by the host country.

Thus, exports of United States manufacturing affiliates in Central and South America accounted for 4 per cent of their total sales in 1957, 7.5 per cent in 1965 and 9.4 per cent in 1968. 36/ Their share in the total exports of manufactures from these regions, which was 12 per cent in 1957, reached 41 per cent in 1966. This share varies by country; thus, in Argentina, between 1965 and 1968, exports of United States affiliates accounted for 14.5 per cent of total exports. In Mexico, in 1966, United States manufacturing affiliates accounted for 87 per cent of exports of manufactures, and in Brazil they represented 42 per cent.

Sporadic data suggest that despite their visibility and presence in key sectors, the contribution of foreign affiliates to the total gross domestic product of developing countries remains relatively small in most host countries. This is because the bulk of the gross domestic product of most developing countries originates in agriculture and the service industries where, on the whole, the presence of the multinational corporation is relatively limited.

Dimensions in centrally planned economies

Although the centrally planned economies have attracted only a very small amount of direct investment and very few affiliates of multinational corporations, they are more involved in the activities of these corporations than a cursory examination of the standard data might indicate. The form in which the multinational corporations extend their operations in these economies differs from that taken in others. Equity participation in countries in which the private ownership of means of production is not congruent with the system is naturally uncommon. The major exceptions are a limited number of sales offices of multinational corporations and some minority participation, which is permitted by law in Romania and, on a very limited basis, in Hungary. 37/

35/ The relative contribution of foreign affiliates may be affected by their orientation towards import substitutión, which is enhanced by the restrictive tariff policies of host countries, and by the type of products manufactured in developing countries in connexion with the global requirements of multinational corporations.

36/ United States Department of Commerce, United States Business Investment in Foreign Countries, 1960 (Washington, D.C. 1960) and Survey of Current Business, October 1970.

37/ Yugoslavia is a special case. It was the first socialist country to permit minority participation by foreign enterprises. A constitutional amendment of 1971 goes so far as to offer a guarantee against subsequent expropriation and nationalization, once a joint venture contract has come into effect.

Yet, apart from straightforward trade, the relationship between multinational corporations and the centrally planned economies has often involved co-operative arrangements in production, the development and transfer of technology, and marketing. Most of these arrangements are relatively recent in origin, reflecting the general trend in the centrally planned economies towards more outward-looking policies and a new emphasis on economic co-operation. Typically, a complex set of arrangements provides for technical help by the multinational corporation in plant construction (e.g. Occidental Petroleum and the proposed fertilizer complex in the USSR), exports and imports (e.g. the purchase by Occidental of the products of the plants, and sales to the USSR of Occidental products) and trade credit.

It has been estimated that there were about 600 industrial co-operation agreements with the developed market economies in force in Eastern European countries at the beginning of 1973. About one-third of these agreements have been concluded within the last two or three years, and continued fast growth is indicated. On the whole, these agreements account for a relatively small proportion of total trade with developed market economies. In some Eastern European countries, however, they already account for 10 to 15 per cent of exports to the developed market economies in some branches of industry. In Hungary, for example, they are responsible for one-sixth of engineering exports to developed market economies. 38/

Similarly, while these agreements do not account for a significant share of the total output of Eastern European countries, they are important for certain branches. These are mostly industries requiring high technology or large investment. For example, over half of passenger automobile production in the USSR in 1975 is expected to come from Fiat, under one of the first industrial co-operation agreements negotiated with Italy. The current figure for Poland is two-fifths.

More recently, the role of multinational corporations in the exploitation of natural resources in the USSR has assumed particular importance. The copper project in Eastern Siberia being negotiated with multinational corporations would involve an investment of $1 to $2 billion, with an annual production of several hundred thousand tons. The natural gas project in Siberia, also involving the active participation of multinational corporations, would account for a major part of the entire natural gas production of the USSR by 1980. Moreover, as exports of these natural resources would continue to flow long after the initial foreign investments were paid off, import capacity would be correspondingly expanded. A further implication of these projects is that because of the vast outlay and the scope of activities involved, they will probably require the participation of very large multinational corporations or consortia of a number of them. Moreover, since many of these arrangements involve large deferred payments beyond the capacity of multinational corporations to finance, they will require finance from banks or export credit institutions.

38/ United Nations Economic Commission for Europe, Analytical Report on Industrial Co-operation among ECE Countries (mimeographed document, E/ECE/844, 14 March 1973).

Similar co-operative agreements have also been made between enterprises of the centrally planned economies and developing countries. Here, on the other hand, the centrally planned economies are usually the providers of technical aid, machinery and equipment and credits, to be paid off with the products of the newly set-up plant.

In recent years, such co-operation has become a rapidly growing source of development assistance from socialist countries. Among the socialist countries' main partners are India and the countries of North Africa. Since 1971, there has been a tendency for a rapid spread to new partners in other regions and continents. 39/

39/ For further information, see "Centrally Planned Economies and the International Development Strategy" in Implementation of the International Development Strategy: Papers for the First Over-all Review and Appraisal of Progress during the Second United Nations Development Decade, vol. II (United Nations publication, Sales No. E.73.II.A.3).

Summary

The term "multinational corporation", used in accordance with the wording of the Economic and Social Council resolution, is employed in the report in a broad sense to cover all enterprises which control assets - factories, mines, sales and other offices - in two or more countries. Under this definition, multinational corporations are responsible for most foreign direct investment, and such investment is used as one of the measurements of the size of the activities of multinational corporations. Since a relatively small number of firms are responsible for the bulk of multinational corporation activities, a description of these firms gives a fair picture of the characteristics of multinational corporations.

The typical multinational corporation is a large-size, predominantly oligopolistic, firm with sales running into hundreds of millions of dollars and affiliates spread over several countries. Another relevant feature is that most parent companies of multinational corporations are located in the developed countries. The United States accounts for more than half of multinational corporations having total annual sales of manufactures of more than $1 billion, and also for more than half of the total estimated book value of investment, which by 1971 had reached approximately $160 billion. The United States, together with the United Kingdom, France and the Federal Republic of Germany, accounts for 80 per cent of foreign activities by multinational corporations.

Multinational corporations, especially those of Japan, the Federal Republic of Germany, and the

United States, have grown dramatically in the last two decades, reflecting rapid post-war economic growth, technological advances, the intensified search for sources of raw materials and market outlets, and shifts in the relative economic power of major industrial countries. Although during the 1960s multinational corporation activities grew faster in developed host countries than in developing, and although the latter have received only half as much of the total estimated stock of direct investment as the developed countries, the presence of foreign multinational corporations in developing countries is generally of greater relative significance, since their economies together account for much less than half of the total of developed market economies.

The distribution of investment in developing countries still reflects historical ties, some of a formerly colonial nature. Multinational corporations were active in the extractive, agricultural and public utility areas, where at present they still account for nearly two-thirds of the stock of direct investment, before becoming prominent in manufacturing and recently in the service sector, especially banking. In the developing countries the share of manufacturing is no more than a quarter, while in developed market economies it represents half of the total investment in these activities.

Through its capacity to move capital, technology and entrepreneurship across national frontiers, the multinational corporation has become the main vehicle for the internationalization of production, which is acquiring growing importance in international economic relations. Indeed, international production (defined as sales by foreign affiliates of multinational corporations to non-affiliates), estimated at approximately $330 billion in 1971, has equalled and in some countries even surpassed trade as the main channel of international economic exchange. Whether an increasing share of world output will be generated by multinational corporations will depend very much on the direction and effectiveness of national and international regulatory measures.

If the role of the multinational corporation in the rational allocation of resources on a world-wide basis is debatable, its importance in intertwining the economies of most developed countries is beyond doubt. Many of these countries serve simultaneously as home and host, but any symmetry is interrupted in the case of the United States which is primarily a home country and by the southern European and southern hemisphere countries which are mainly host countries.

The importance of multinational corporations in the developed market economies varies considerably by country and industrial sector, with a high concentration in a fairly small number of sectors characterized by fast growth, export orientation and high technology, some of them regarded as key sectors by host countries.

In many developing countries, the presence of multinational corporations is of increasing significance relative to total capital flows from industrial countries and to the output of the domestic sector. The preponderant position of multinational corporations in the extractive industries seems to be declining but in manufacturing and other sectors there is a rising trend.

In the centrally planned economies, the modest but growing presence of multinational corporations has taken a different form, reflecting the local political and economic system. While minority equity participation is allowed in only a few countries, the relationships of multinational corporations with the centrally planned economies have usually involved industrial co-operative arrangements, the transfer of technology and marketing, chiefly in the areas of the exploitation of natural resources and high technology.

II. THE NATURE OF MULTINATIONAL CORPORATIONS

The enormous size and importance of multinational corporations and their very high rates of growth during the last two decades have been indicated in the foregoing description and analyses. Sheer size and importance combined with rapid growth have caused concern about their influence. Any useful action concerning multinational corporations, at a national or international level, must be based on a thorough understanding of the nature of these corporations.

While some salient characteristics of the operations of multinational corporations have been revealed by aggregate data, a deeper understanding of their nature can be gained by examining the multinational corporation at the micro-level. Clearly, differences in the strategies of particular multinational corporations in particular countries will have an important bearing on their precise impact. Government policy with respect to the operations of multinational corporations, whether in home or host countries, must therefore be based on an analysis of the multinational corporation in various circumstances in some detail.

Development of raw materials and manufacturing

Firms invest abroad for a variety of reasons. Although the pursuit of profits is a major motivating factor, there are others equally important. Firms subject to oligopolistic competition frequently reach abroad in the effort to capture large shares of world markets. Reduction of uncertainty in their market environment and continuous growth are other strong objectives. The relative importance of these and other factors varies of course from firm to firm and over time, depending upon the particular circumstances and pressures.

Despite the voluminous literature on the subject, it is clear that the available data are incomplete and that conceptual limitations persist. Nevertheless, several general considerations have been established.

Raw materials

One of the earliest motivations to invest abroad was the desire to control sources of raw materials. In the second half of the nineteenth century, European and North American businessmen laid the foundations of many of today's major multinational corporations which are concerned primarily with the extraction, transportation and processing of raw materials. Whereas a few decades ago foreigners dominated virtually all the raw materials industries, they are today far less prominent in the agricultural industries and their presence has also somewhat diminished in mining, as governments become increasingly successful in gaining control over their natural resources from foreign investors.

Throughout the development of sources of raw materials there has been considerable tension between foreign investors and host governments. 1/ Today, the investor is usually one of a small group of huge firms, all attempting to achieve stable and predictable growth under oligopoly conditions. Although this goal may be shared by host or home governments, tension arises between them in the struggle to attain the respective objectives and to divide the rewards. The outcome of this struggle varies from industry to industry and also over time, according to the relative power of the two sides.

Because of the special nature of the raw materials industries, the points of tension and the steps taken in the struggle have differed considerably from those encountered in manufacturing industries.

The recent decline of the domination of multinational corporations over a number of raw materials sectors, especially petroleum, reflects the gradual diminution of their initial advantages as suppliers of funds, technology and skills not easily available elsewhere. Furthermore, these firms have been losing some of their original power of control over export markets, as governments have gained greater access to foreign consumers or have clubbed together to co-ordinate their export strategies. The reaction of some corporations has been to strengthen their position by offering new advantages, such as local processing, new technology, marketing outlets and new ownership schemes. These reactions suggest their considerable flexibility and resourcefulness.

Manufacturing

Foreign direct investment in manufacturing was stimulated at first by a desire to protect markets originally developed by exports and subsequently threatened by increasing barriers to trade, by other multinational corporations or by local competition. 2/ More recently, the growing practice of world sourcing by multinational corporations, especially in such industries as transport equipment and electronics, has given new importance to cost advantages.

Among many United States manufacturing industries which are characterized by a high degree of research effort, foreign investments have tended to follow a common pattern. 3/ Innovations in these industries are nurtured by the high per capita income level in the home market, which gives United States exporters a temporary advantage at the early stage. As foreign markets expand, and as technology becomes widely known and economies of scale assume primary importance, production begins in foreign countries. The first few production sites are

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1/ R.F. Mikesell and others, Foreign Investment in the Petroleum and Mineral Industries (Baltimore, 1971).

2/ For survey data on this point, see Emergency Committee on American Trade, The Role of the Multinational Corporation in the United States and World Economies (Washington, D.C., 1972).

3/ L.T. Wells, The Product Life Cycle and International Trade (Boston, Harvard Business School, 1972).

generally in advanced countries with a demand pattern closely resembling that in the United States. Eventually, as the particular product reaches maturity, United States and other multinational corporations in foreign countries export to the world from foreign bases. At a later stage still, production starts in developing countries. For a few products, such as textiles and electronic components, a further stage seems to exist: the primary source of production shifts away from the United States and Europe to developing countries, which then supply the advanced markets.

This pattern of development, which applies mainly to the experience of United States firms, especially in industries such as automobiles, chemicals, and engineering, has undergone changes in more recent years. Some firms have built elaborate networks of specialized factories producing components or a part of a product range in investment countries, for shipment to other locations, under the stimulus of tariff advantages. 4/ A less developed host country may thus be engaged in the production of fairly sophisticated products with the traditional stages of development not being followed. Moreover, investment decisions are based on a conception of the firm as a global entity and are less dependent on local resources than in the case of industries processing raw materials, or on the local market, as in import-substituting industries. As a result, each affiliate in such a network becomes subject to a greater degree of centralized control by the parent company.

Multinational corporations of other national origin have experienced different patterns of foreign expansion. United Kingdom-based multinationals, for example, have not depended to the same extent as those of the United States on the possession of distinctive technology. Many of the largest United Kingdom firms long confined their foreign manufacturing investments to Commonwealth territories rather than investing in countries with similar per capita income levels. 5/ French multinational corporations have followed patterns largely similar to those of the United Kingdom, 6/ while the primary motivation of Japanese multinational corporations was initially the establishment of low-cost production sites for supplying home and world markets, and more recently the control of raw materials and markets. 7/

4/ G.K. Helleiner, "Manufactured exports from less developed countries and multinational firms", Economic Journal, March 1973; United States Tariff Commission, Economic Factors Affecting the Use of Items 807.00 and 806.30 of the Tariff Schedules of the United States (Washington, D.C., 1970).

5/ For some details of the strategies of international expansion of these firms, see J.M. Stopford, "British-Based Multinational Firms: External Influences on Strategy and Style", paper presented to NATO Symposium, Brussels, April 1973.

6/ A detailed exposition of the patterns of foreign investment by a large sample of firms and their stated reasons for moving abroad is contained in C. Michalet and M. de la Pierre, "Les facteurs de constitution des enterprises multinationales françaises", Centre d'Etudes et de Recherches sur l'enterprise multinationale, (Paris, 1972), mimeographed.

7/ See, for example, G. Adam, "New trends in international business: world-wide sourcing and domiciling", Acta Oeconomica, Vol. 7, 1971, and M. Yoshino, "Japanese Foreign Direct Investment", a paper commissioned by the Committee for Economic Development (forthcoming, 1973).

There have been some exceptions to the general pattern of development of non-United States multinational corporations. A few firms have made large investments in the United States in order to exploit research-based or other oligopolistic advantages, or to acquire knowledge through direct exposure to the United States market. Thus several large European and Japanese firms have been impelled to protect their market positions by direct investment in the United States. It is these firms which, resembling their United States competitors, have created global networks of the type described earlier. The others have preferred to remain primarily dependent on affiliates with a lower degree of specialization in production. Since the number of firms which are likely to make a major assault on the United States market in the foreseeable future is limited and since they will take some time to assume predominant importance, it is probable that the current asymmetry of investment flows between the United States and other advanced economies will persist for a period. There are, however, indications that this asymmetry may not be permanent. 8/ There are also indications that United States investments in the less developed world are likely to remain distinctive in scope and strength for some time, despite faster rates of growth of other foreign investment there and some divestment by the United States.

Organization and control

Organizational structure

The increasing size and complexity of multinational corporations has forced managers constantly to seek new ways of maintaining an adequately efficient scheme of organization. Corporate growth has produced a web of powerful and often opposing forces within each enterprise. The methods of organization and control devised to counteract these pressures without unduly diminishing the local initiative of foreign subsidiaries have been closely related to the strategies of expansion and have varied according to the national origin of the parent company.

An analysis of the organizational development of 170 United States-based multinational corporations suggests that the firms have adopted their formal structures of organization in several fairly discrete stages. 9/ From an initial period of uncontrolled experimentation, which gave considerable autonomy to the subsidiaries, and the subsequent establishment of international divisions which curtailed this autonomy to some extent, many multinational corporations moved eventually to dismember their international divisions and create either worldwide product divisions or area divisions, depending on the firm's strategy of expansion. Other corporations found a combination or "mixed" structure, consisting of some world-wide product divisions and some area divisions, to be a more appropriate

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8/ F. Root, International Trade and Investment (Cincinnati, 1973), pp. 541-544.

9/ J.M. Stopford and L.T. Wells Jr., Managing the Multinational Enterprise, (New York, Basic Books, 1972).

structural arrangement for their particular strategy. 10/

These reorganizations have been accompanied by considerable changes in the attitudes of top management: assumptions that business abroad is fundamentally different from business at home have been replaced by a global perspective and recognition of the need to integrate closely related domestic and foreign units. At the same time, the organizations have developed new skills and control procedures appropriate for global operations.

Co-ordination problems still persist, however, in these 'global' structures. Such problems appear in acute form for those firms with widely diversified product lines and extensive geographical coverage. A few firms are attempting further structural adaptations to handle the problems. 11/ In addition, many firms are relying increasingly on improved training procedures to maintain co-ordination. Such training, designed to induce managers and employees to behave in predictable ways consistent with parent company policy, helps to reduce the need for continuous consultation with the centre and thus to reduce the costs of co-ordinating staff groups. 12/ The responsiveness of firms to new challenges of international business continues unabated.

Whereas United States-based multinational corporations have developed carefully designed formal organizations, those of other national origin have tended to rely more on informal procedures. A keynote in the procedures linking the affiliates to both United States and European parent companies has been reliance on the loyalty and esprit de corps of the affiliates' managers. Changes in procedures have occurred not in discrete stages but rather in the form of continuous adaptations. The reasons for the differences are as yet imperfectly understood, but they clearly involve historical, cultural and institutional factors, and attitudes towards competition. 13/

With increasing competition, and also increasing scale and complexity, European-based multinational corporations have increasingly been forced to employ

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10/ The "world-wide" product division structure is related to a strategy having a wide diversity in products, while the "area division" is related more to a strategy based on taking a narrow line of products into more and more foreign countries.

11/ These adaptations take the form of imposing dual or triple lines of reporting and control in a 'grid' structure. See Stopford and Wells, op. cit., Ch. 6. See also M.Z. Brooke and H.L. Remmers, The Strategy of Multinational Enterprise (London, Longman, 1970), for similar observations.

12/ Some evidence of this factor is contained in J.H. Dunning, American Investment in British Manufacturing (London, Allen and Unwin, 1958), p. 112; A.E. Safarian, Foreign Ownership of Canadian Industry (Toronto, McGraw Hill, 1966), pp. 88-93; and I.W. Meister, Managing the International Financial Function (New York, National Industrial Conference Board, 1970), pp. 94-95.

13/ Van der Haas, The Enterprise in Transition, (London, Tavistock Press), provides an interesting exploration of the effect of these variables on European firms.

more formalized procedures of organization and control. During the late 1960s, many developed structures that resemble the United States type. The resemblance is closest among those with integrated networks of specialized production abroad because it is there that managerial tasks are most similar: a high degree of central planning and advance scheduling of product flow is essential if the economic gains from reduced costs are to be realized. Nevertheless, in general, non-United States multinationals probably preserve a greater degree of local autonomy, or at least decentralization, than do United States-based multinationals.

Control procedures

As organizational changes occur in multinational corporations, so changes are introduced into operating policies regarding corporate planning, control, finance, measurement of performance and manpower, which in turn indicate the degree of autonomy enjoyed by the subsidiary. 14/

In the early years, control of foreign subsidiaries is often minimal or restricted solely to the screening of capital projects. The need for greater centralization, set off by the creation of an international division or by some traumatic event such as a devaluation or the write-off of a capital project, leads to the establishment of a strong central finance and control group. 15/ This group introduces procedures for optimizing the cash flows of the entire global system. Decisions about hedging on foreign exchange, borrowing, declaring dividends and so on, are taken centrally. The effect is to subordinate the interests of the subsidiary to those of the corporation as a whole. Consequently, the profits reported for local tax purposes may be understated and measures of performance may become meaningless unless appropriate adjustments are made to allow for the distortions associated with global optimizing decisions.

Despite these major efforts to centralize the financial decision system, the continued growth of foreign subsidiaries has at times been accompanied by a loosening of the financial reins. Part of the reason appears to be the realization that the system can be overmanaged and a high cost of overhead can be added without a proportionate return in the form of improved decisions.

Financial control can be achieved by various means and few foreign subsidiaries are allowed to set their own financial policies. Apart from direct control, the enterprise has developed a corps of trained men attuned to a common

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14/ Changes in operating policies regarding control and finance in United States-based multinationals are described in considerable detail by S.M. Robbins and R.B. Stobaugh, Money in the Multinational Enterprise: A Study of Financial Policy (New York, Basic Books, 1973).

15/ A common response to past error, and one not restricted to multinational corporations, is to tighten the control system. For observations of such a response on the part of United States firms in Australia, see D.T. Brash, American Investment in Australian Industry (Cambridge, Harvard University Press, 1966), p. 120.

set of policy guidelines and standard procedures. 16/ Similarly, in other functions, common procedures are enforced. Product choices for the subsidiaries are almost always limited to those products manufactured in the home country, especially in the case of the United States. 17/ Marketing procedures, long considered to be the function immune above all others to efficient centralization, are in some firms becoming standardized. Manpower policies regarding key managerial positions are, as a result, being constantly adapted in order to select and train men of different nationalities who can work within this new style of management and at the same time provide an adequate response to governmental pressure for local representation.

Profit and ownership policies 18/

Profit management

Dividends and royalty payments are not the only means whereby multinational corporations withdraw profits from a foreign subsidiary. Profits can be recorded in other units of a global system, including holding companies located in tax havens, through control of the transfer prices for goods and services supplied by the parent company or exports to other affiliates.

The importance of these controls in influencing the net profit before local taxes depends largely on the proportion of total purchases and sales tied to other affiliates. Import purchases, which are usually tied in, though large in absolute terms for all multinationals taken together, are generally small relative to purchases from local sources. 19/ This percentage tends to decline as the local economy develops, but it increases as firms develop networks of specialized, interrelated production. Exports to other affiliates, though subject to controls and allocations among all the affiliates, are becoming increasingly important, particularly as the networks are developed.

Prices charged for tied imports have been shown in some instances to be far above prevailing "world"prices, 20/ and conversely those for exports have been below world prices. As already noted, overpricing, particularly for wholly-owned

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16/ J.M. McInnes, "Financial control systems for multinational operations: an empirical investigation", Journal of International Business Studies, Fall, 1971, provides detailed evidence of the use of highly systematized sets of accounting statements and control techniques.

17/ Stopford and Wells, op. cit., pp. 36-38.

18/ See tables 36 and 37 in annex III.

19/ In Central and South America, import payments of United States manufacturing subsidiaries were 10 per cent of total sales. See, Raymond Vernon in Restrictive business practices, UNCTAD, TD/B/399, 1972, Table 9. A similarly low percentage was reported for United Kingdom manufacturing and mining subsidiar: in 15 countries by W.B. Reddaway, The Effects of United Kingdom Direct Investment Overseas: An Interim Report (Cambridge, Department of Applied Economics, Univers: of Cambridge, 1967), Chapter 6.

20/ See C. Vaitsos, Income Generation and Income Distribution in the Foreign Investment Model, forthcoming, Oxford University Press.

affiliates, has been used as an alternative to royalty payments. Considerable variation exists, however, in the amount of overpricing or underpricing and its over-all frequency is not known. There is some evidence to suggest that overpricing has been reduced both by governmental pressure and by problems of internal control. 21/ The alternatives are complex and their effects little understood. Nevertheless, the issue makes for considerable tension between host and home governments and foreign investors, as will be shown later.

A further aspect of profit management that generates tension is the recorded profitability of foreign subsidiaries. The apparent high profitability of foreign affiliates of multinational corporations needs to be examined carefully: not only are the profit figures liable to distortion but also the capital base of the affiliate has many discretionary components. Some aspects of the discretionary practices can be deduced from examining different procedures generally adopted for wholly-owned affiliates as opposed to joint ventures. The capital structure of a newly established subsidiary generally has a large proportion of locally raised debt if it is a joint venture, much less if it is wholly-owned. 22/ Studies of United States investment in Australia and Japan have shown that contributions of technology are likely to be capitalized in joint ventures, but not in wholly-owned subsidiaries. 23/ This difference may partly explain why wholly-owned subsidiaries have generally reported a higher return on book equity than joint ventures. 24/ Further differences in financial policy are evident, especially in the early years of existence: wholly-owned subsidiaries are provided with special support services at low or zero cost; royalty payments are temporarily forgiven; dividends are postponed. On the other hand, in later years, parent companies expect to be able to move funds between subsidiaries on demand. 25/

These qualifications should be kept in mind in analyzing data on the recorded profits of foreign affiliates. Aggregate data conceal variations by sector and area of investment whereas rates of return depend on the accuracy

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21/ J.S. Arpan, International Intercorporate Pricing (New York, Praeger, 1971).

22/ See United States Department of Commerce, United States Direct Investments Abroad, 1966, Part II: Investment Position, Financial and Operating Data (Washington, D.C., Social and Economic Statistics Administration, Bureau of Economic Analysis, 1972), Group 2, BEA-SUP 72-01, Table 6. See also, for United Kingdom practice, Brooke and Remmers, op. cit., pp. 203-206.

23/ Brash, op. cit., p. 77, and W. Winiata, "United States Managerial Investment in Japan, 1950-1964, An Interview Study", unpublished doctoral dissertation, University of Michigan, 1966.

24/ See, for example, Reserve Bank of India, Foreign Collaborations in Indian Industry (Bombay, Examiner Press, 1968).

25/ For a comprehensive analysis of financial practice, see Robbins and Stobaugh, op. cit.

and relevance of figures on stock of direct investment. Thus, in the period 1965-1968, United States multinational corporation operations were twice as profitable in developing countries as in developed countries. If petroleum is excluded, the difference is smaller both for the United States and the United Kingdom. This reflects the fact that the profitability of petroleum operations is several times higher in developing countries than in developed market economies. This difference is partly explained by the oil companies' preference for declaring profits, for tax purposes, in the producing countries rather than in the countries where they refine and market their products. This example highlights, once more, the flexibility with which multinational corporations conduct their global operations and indicates that data on earnings should be interpreted with caution.

Ownership policies

Profit management is closely related to ownership policies. As has been shown earlier, multinational corporations generally prefer their foreign affiliates to be wholly-owned. Control is the variable that leads to this preference. Nevertheless, there are many firms that actively search for joint venture partners. It is the strategy of expansion which generates the particular ownership policy adopted by any one firm. 26/

Some strategies require such tight, centralized control that conflicts with local partners would be intolerable to the parent company. For example, strategies dependent on cost-reduction through the building of specialized networks rely on the ability of the firm to subordinate the affiliates' interest to that of the whole. Strategies emphasizing the exploitation of new technology create such serious problems of reaching agreement with local partners on what constitutes a fair return for the technology contributed and such problems of controlling proprietary knowledge that joint ventures are avoided. 27/

When innovation in production is the basic strategy, firms prefer to capture themselves the monopoly rents from their technological lead. Furthermore, being sole owners of the technology, such firms retain a strong bargaining position vis-à-vis a host government. 28/ Once the technology slips out of the innovator's hands, this advantage is eroded. In the chemical industry, for example, there is evidence that firms can insist on complete ownership only for products at the beginning of their life cycle; for more mature products firms can do so less frequently, because of the number of competitors willing to grant licences. 29/

26/ See Stopford and Wells, op. cit.

27/ For a discussion of this aspect of the problem, see Junta del Acuerdo de Cartagena, Transfer of Technology, UNCTAD, TD/107, 1971.

28/ For examples drawn from IBM activities in India and Japan, see J. Baranson, "Technology transfer through the international firm", American Economic Review, May 1970.

29/ R.B. Stobaugh, "The Product Life Cycle, United States Exports and International Investment", unpublished doctoral dissertation, Harvard Business School, 1968.

While multinational corporations following any of the above strategies do not find the contribution of a local partner especially useful, other multinational corporations following alternative strategies might regard such a contribution as valuable. For instance, firms actively diversifying their product lines abroad turn to local partners for marketing skills appropriate to the new lines. Such partners can often increase the speed of entry into the local market and can also increase the number of markets that can be tackled simultaneously. Where the diversified lines abroad differ from those at home, particularly for some United Kingdom-based multinationals, central supervision is much looser than for other lines. 30/ In such cases, local partners can be readily accepted. Multinational corporations in raw materials industries, though they prefer wholly-owned subsidiaries for the extractive operations, sometimes turn to local partners when they enter local manufacturing operations. Oil companies, for example, will share ownership of refineries, particularly if that is the only way in which they can obtain continued access to the local market.

As corporations shift their strategies, so their ownership policies change. An increase in centralization of control, particularly when accompanied by an organizational change to area divisions, has tended to reduce the propensity of firms to enter new joint ventures and increase the propensity to buy out existing partners. 31/ This tendency towards "denationalization" has given rise to tensions in some host countries. As firms continue to expand and develop their foreign interests, it is likely that ownership policies will continue to be adapted to new requirements.

It is probable that many more firms, at present oriented mainly or exclusively to their home markets, will be drawn into the international arena. Most of these firms will be based in developed countries, but firms based in developing countries may increasingly follow suit. Already the beginnings of such a trend are observable in Latin America and the petroleum-exporting countries. These newcomers are likely to encounter the same problems as those faced by others before them and to respond accordingly.

Multinational corporations with extensive foreign interests will most probably continue to grow and to diversify their product lines. To do so without allowing diseconomies of scale to overwhelm their special skills, they will be forced to experiment with new forms of organization. The recent reorganizations referred to above are the beginnings of such experimentation. Their success is far from certain, however, and other approaches will undoubtedly be tried. A large increase can be expected in expenditure on communications and training in order to enhance the abilities of firms to harmonize their policies. And, as firms promote to senior positions foreign nationals who do not share the attitudes and objectives of their 'home' country colleagues, the need for meetings will become even greater.

30/ See, for example, Safarian, op. cit., p. 93.

31/ L.G. Franko, Joint Venture Survival in Multinational Corporations (New York, Praeger, 1972), Ch. 4.

Advances in data processing and in techniques for transmitting information will help to speed this trend towards greater harmonization of policy throughout complex global systems. These advances will be particularly important for firms which are building specialized networks of interrelated production. Many more firms will be forced to specialize production within free trade areas and some will attempt greater specialization on a global scale. As these trends develop, manufacturing firms may find joint ventures harder to live with and attempts may be made to buy out existing partners and to own new facilities outright.

The vertically-integrated multinational corporations are likely to present a complex change in ownership policies. Until recently, they have generally used wholly-owned facilities in the extractive and primary processing operations, and joint ventures for downstream operations (at the final stages of fabrication and distribution) where control is less critical than access to markets. But many are losing their oligopoly positions, as new entrants or governments become able to set up their own extractive or processing facilities. In order to re-establish some barriers to competition, these firms will probably try to develop a greater degree of control at downstream stages, for example by developing new technology. Thus, joint ventures may become increasingly acceptable to these multinational corporations at upstream stages and less so downstream. 32/

The general trend towards centralization and tighter control indicates increased conflict with governments as they become more insistent upon a greater degree of local participation and influence. Although changes in the relationships between foreign investors and host governments are indicated, the nature of these changes is as yet uncertain. Most probably, in any given country, there will be combinations of various alternatives, depending upon the power and the contribution to the local economy of the investor concerned.

Increasingly novel forms of ownership arrangement will come into being. Multinational corporations may be allowed unambiguous control for as long as they make a critical contribution that cannot be made by others. As that contribution diminishes, so local control will increase. Various 'fade-out' arrangements have already been implemented and more are appearing in the legislation of developing countries. There are many problems in identifying contributions with sufficient clarity for the purposes of writing a contract, but doubtless these will be overcome as the multinational corporations realize from experience that ownership for a limited time is not necessarily against their interests.

The use of management contracts is also likely to become more frequent. Here the multinational corporation can make a contribution and at the same time earn profits without having the tie of owning physical assets. Such contracts are already widely used by consortia of construction firms in developing countries. Some, particularly marketing contracts, are appearing in the manufacturing sector. Management contracts in production may be closely tied to new forms of royalty agreement.

32/ See Stopford and Wells, op. cit.

The resourcefulness of multinational corporations in the face of changing attitudes and regulatory legislation is boundless. They will most probably continue to expand on some fronts, retreat on others, and to develop new types of links. But the increasing power of host governments individually or as members of a regional group to insist on participation if not outright control, the growing sentiment in some home countries for stricter scrutiny of multinational corporations, and the fact that first tentative steps towards some form of international action have been taken, suggest that the days are gone when it could be predicted with some justification that the world economy would eventually be dominated by a handful of giant firms.

Summary

The enormous size and spread of multinational corporations and their high rates of growth during the last two decades have dramatically expanded the areas in which corporations can affect international relations and economic development. Any action in respect of multinational corporations, however, must be based on a thorough understanding of their nature and motives and ways of behaviour.

Corporations become multinational for a variety of reasons, usually connected with the protection of their oligopolistic position. Reduction of uncertainty, continuous growth and the retention or enlargement of their share of the market may be as important as the pursuit of immediate profits. Originally the desire to control raw materials was reflected in a dynamic expansion in the area of natural resources. The decline in their dominant position in this field reflects the gradual diminution of their initial advantage as suppliers of funds, technology and skills, as well as action by many host countries.

In manufacturing, investment abroad was stimulated by increasing barriers to trade which threatened exports. In industries where a high degree of research effort is employed, it may appear more advantageous during the later life of a product to invest abroad than in the country of the original innovation. More recently, however, specialized factories producing components for shipment to other countries, based on cost considerations, have assumed increasing importance.

The rapid expansion of multinational corporations has required complex schemes of organization. In most cases, more flexible systems have been replaced by greater centralized control. The centralization is stricter in some areas, such as financing, although variations exist by product, nationality and area. In a global context, the free movement of funds is the bloodstream of the corporation. It is achieved through various methods, not all of them obvious - dividends and royalty payments being only two. Transfer pricing and other practices are also extensively used to achieve the same purpose. Methods and organizational schemes are constantly being adapted. The need to exercise control is reflected in the preference of multinational corporations for wholly-owned subsidiaries, although control can at times be achieved through joint ventures and even minority positions. Often the strategy of expansion generates the particular ownership policy adopted by any one firm.

On the whole, the manifested resourcefulness and flexibility of multinational corporations in the face of changing internal and external forces underlines their almost boundless capacity for adaptation. This attribute should permit them to adjust to new realities in the light of efforts by governments at the national, regional and international levels to prevent multinational corporations from exerting undue influence.

III. IMPACT AND TENSIONS

The multinational corporation in international relations 1/

Contemporary international relations take place on different stages and involve many actors. Although the nation-state is the most important participant, there are others, including non-governmental entities, which interact and compete with governments in shaping and participating in international relations.

Non-governmental bodies can participate in international relations by influencing the policies and actions of their own governments, or by influencing the policies and actions of foreign governments, either directly or through non-governmental entities in those countries. In the latter case they bypass their own governments, although the consequences may affect those governments' policies and actions. Furthermore, modern communications permit non-governmental entities to affect the environment in which international relations take place by influencing tastes, values and attitudes.

Given their world-wide spread and significant role in the world economy, multinational corporations are one of the main non-governmental participants in international relations. Yet, despite the fact that their activities cover many countries, that they participate in diverse economic and social systems, and that their interests extend around the globe, there are no "world citizens" by whom multinational corporations can be staffed. The equity of such corporations and the top management of their global operations tends to be in the hands of citizens of their home countries. At the same time, their interests do not necessarily coincide with those of the home country, but rather reflect the particular objectives of the corporation.

As has been suggested above, multinational corporations can participate in and affect international relations in various ways. Multinational corporations link the managerial and other personnel employed by them in home and host countries in transnational structures. Given the strong and sometimes even dominant role of these individuals in both home and host countries, and the relations established by multinational corporations with local groups and élites having similar interests, these corporations are often close to the centres of political power and can thus influence the affairs of nations. This influence can also extend directly or indirectly to the distribution of income and the allocation of resources.

1/ For a discussion of this subject, see, among others, J.S. Nye and R.O. Keohane, "Transnational relations and world politics", Introduction, International Organization, vol. 25, 1971; Aldo Ferrer, "El capital extranjero en la economia argentina", El Trimestre Economico, April-June 1971; T.H. Moran, "Transnational strategies of protection and defence by multinational corporations: Spreading the risk and rising the costs for nationalization in natural resources" in International Organization, vol. 27, Spring 1973, pp. 273-289; J.N. Behrman, National Interests and Multinational Enterprise: Tensions among the North Atlantic Countries (Englewood, N.J. , Prentice Hall, 1970), pp. 101-113.

Multinational corporations can also have an impact on international relations by contributing towards placing countries in interdependent or dependent positions from which governments may find it difficult to extricate themselves except at considerable cost. To a large extent such dependence and interdependence results from the fact that the operations of the multinational corporations are controlled from outside the territory of the host country and that the policies of the multinational corporations are based on considerations which transcend those of host as well as home countries. 2/ Sometimes the reluctance of governments to pursue policies in respect of multinational corporations that are desirable from their national point of view may be due to their concern about the repercussions which may result from the reactions of home governments. Such inhibitions may also stem from arrangements which multinational corporations might enter into to protect their interests. These can result in bringing pressure to bear on a particular government by influencing foreign official or private lending and insurance agencies, customers, and other firms.

Multinational corporations can also wilfully or involuntarily affect the relations between the governments of home and host countries. Problems experienced by a multinational corporation in a particular host country may in some cases have a determining influence on the policies of the home government. In other instances, multinational corporations may be used by home governments as vehicles for the implementation of their foreign policy.

Multinational corporations not only participate in and affect international relations, but are also themselves affected by the pressures and limitations that arise out of the interaction of other actors, chiefly governments. Foreign operations by governments with respect to anti-trust measures, strategic export controls, foreign investment (balance of payments) controls, etc. may prompt conflicts among states which can significantly affect multinational corporations.

The nation-state and the multinational corporation

The global operations of multinational corporations within the framework of nation-states frequently give rise to conflicts. While conflicts arising out of divergencies between the private objectives of a profit-making firm and the social welfare goals pursued by a government can apply to domestic as well as national corporations, there is an important difference in the capacity of governments to resolve such conflicts. Those of a purely domestic nature can be settled by the "pouvoir supérieur souverain" of the government through its policies and regulatory machinery. Given the nature of the multinational corporation, however, conflicts between governments and such corporations assume greater and more complex proportions. Governments often feel a lack of power to deal effectively with powerful multinational corporations. Indeed, no single national

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2/ For example, the quasi-official Watkins report on Canada stated that "the most serious cost for Canada resulting from foreign ownership is the intrusion of (foreign) law and policy into Canada. For Canada, the essential feature of the problem is not the economic cost, but the loss of control over an important segment of Canadian economic life." Foreign Ownership and the Structure of Canadian Industry, (Ottawa, 1968), p. 345.

jurisdiction can cope adequately with the global phenomenon of the multinational corporation, nor is there an international authority or machinery adequately equipped to alleviate the tensions that stem from the relationship between multinational corporations and nation-states.

The possibility of conflict is most apparent in host countries. Differences in objectives are exacerbated by the location of the decision-making apparatus of the multinational corporation in foreign centres. In many developing host countries especially, the suspicion is often expressed that the multinational corporation serves as an alien agent to extend "imperialistic" domination and to perpetuate politico-economic dependencia. 3/ Even in developed host countries, foreign control of key sectors by multinational corporations is regarded in many quarters as a serious infringement upon political independence, and even sovereignty itself. 4/

In spite of such strong reservations, however, the majority of governments of host countries have, on the whole, encouraged foreign direct investment. Indeed, through their offers of generous incentives, governments at times appear to be bidding against each other in efforts to attract multinational corporations. In encouraging the entry of multinational corporations, host governments seem to look upon their contribution as positive, although at the same time they tacitly attempt to obtain an acceptable trade-off between political, economic and socio-cultural costs and benefits. Since such calculations have usually been made ex post and especially during the later life of an investment, when costs appeared to supercede benefits, tensions have often been generated. Furthermore, recent changes in world economic structures, which have resulted in wider options being made available to developing countries, together with political changes within these countries and enhanced knowledge about the operations of multinational corporations have frequently led to a re-evaluation of "trade-offs", and to the adoption of new policies towards foreign direct investment, including the renegotiation of contracts and fade-out of participation arrangements.

When considering economic costs and benefits, governments are sometimes faced with a dilemma. On the one hand, they judge that multinational corporations can contribute to the rate of increase of income and exports, and can raise the level of technology, employment and managerial know-how. On the

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3/ O. Sunkel, "Intégration capitaliste transnationale et désintégration nationale en Amérique Latine", Politique Etrangère, No. 6, 1970, and "Big business and 'dependencia': a Latin American view", Foreign Affairs, vol. 50, 1972; Celso Furtado, "La concentración del poder económico en los EE.UU. y sus proyecciones en America Latina", Estudios Internacionales, Año I (Santiago, 1968).

4/ See Foreign Ownership and the Structure of Canadian Industry, Report of the Task Force on the Structure of Canadian Industry, Privy Council Office, (Ottawa, 1968), p. 339, and J.J. Servan-Schreiber, Le Défi Américain (Paris, 1967).

other hand, they recognize that multinational corporations can also undermine governmental priorities, fiscal and monetary policies, and income distribution policies, and may have an unfavourable effect on the balance of payments. The dilemma is a function of the difficulty of grasping all the implications and also of maintaining an adequate perspective on differing long and short-term effects. Small developing countries are the most vulnerable to this dilemma, given their limited expertise, the inadequacy of the information available to them, and their limited political bargaining power.

By contrast, most developed host countries belong to a network of advanced economic, and even political, relationships which allow for more successful economic and political bargaining. Possession of scarce resources is, of course, an added advantage and one that is increasingly being used in the bargaining process between host governments and multinational corporations.

The political aspect of the host country-multinational corporation relationship is assuming greater importance as multinational corporations continue to expand and as national independence in many countries has lent immediacy to the issue of sovereignty over natural resources and key industries, and as episodes of disguised or overt political interference have come to light. Another source of tension lies in the introduction by multinational corporations of foreign cultural values and the dilution of the host country's heritage.

In home countries, an old debate has recently been rekindled concerning the economic and political implications of investing abroad. The beneficial effects on employment and balance of payments have been disputed by various groups, particularly by organized labour. Governments of the home countries have also found, at times, that multinational corporation activities tend to circumvent or even disrupt their trade, fiscal or monetary policies.

Political ramifications in home countries arising out of the operations of multinational corporations have also come under increasing scrutiny, as they can lead to conflict with other governments. Such tensions between governments arise not only from political confrontations in support of multinational corporations, but also from jurisdictional problems. Although issues of jurisdiction are common in international economic relations, multinational corporate activities have magnified the problems of extraterritoriality, and of tax loop-holes or of overlapping taxation. 5/

Some sources of tension can be clearly identified from the existing evidence, some are still largely a matter of conjecture. But the pervasiveness of tensions suggests that the sources are not imaginary. Further studies on the impact of multinational corporations in fields where the present evidence is inadequate, such as employment and the development path, would contribute to a better understanding of the problem and probably aid in efforts to establish a new modus vivendi in which tensions could be reduced and interests reconciled.

5/ See, among others, A. Fatouros, "The computer and the mud hut: notes on multinational enterprise in developing countries", Columbia Journal of Transnational Law, vol. 10 (1971); D.F. Vagts, "The multinational enterprise: a new challenge for transnational law", Harvard Law Review, vol. 83, (1970).

Sovereignty

In a certain sense, the manifold operations of foreign-based multinational corporations and their pervasive influence on the host country may be regarded as a challenge to national sovereignty. The challenge has, moreover, economic, social, political and cultural dimensions which are frequently inseparable from one another. The tensions and conflicts thus generated are, likewise, the result of complex interaction between many agents in many areas.

Frequently, the multinational corporation is perceived as capable of circumventing or subverting national objectives and policies. 6/ While foreign affiliates can and often do choose to integrate their activities with national plans, the mere possibility of their being able to choose - and to afford to do so - is unsettling for host countries, developed as well as developing. 7/

Generally, the powerful multinational corporations possess a variety of options in response to governmental policies. This is particularly so in the case of manufacturing affiliates for which locational advantages are not rigidly determined. In contrast, affiliates involved in the field of natural resources have more limited locational options, since they are tied to the sources of raw materials, and hence are more susceptible to governmental incentives or pressures.

On the other hand, it is the operation of the multinational corporations in the field of raw materials which gives most immediacy to the issue of sovereignty, especially in developing countries. The presence of multinational corporations in the extractive industries is highly visible; they own land in the host country and they make decisions involving the extraction of usually non-renewable natural resources.

The principle of permanent sovereignty over natural resources, generally accepted by the international community, 8/ is raised when disputes arise over the control and distribution of benefits. Similarly, foreign plantations and land operations pose particularly sensitive issues of foreign intrusion. When nationalization is resorted to, the question of adequate compensation frequently arises. In some cases, attempts by multinational corporations to seek better compensation through legal action and sanctions by governments and financial institutions tend to escalate the conflict.

6/ See, J.N. Behrman, National Interests and Multinational Enterprise, op. cit.

7/ According to the Report of the Task Force on the Structure of Canadian Industry, op. cit., "The tendency inherent in direct investment to shift decision-making power in the private sector outside Canada, has on occasion posed serious problems for those responsible for formulating Canadian policy, and has created widespread unease among Canadians as to the continuing viability of Canada as an independent nation-state."

8/ See General Assembly resolutions 525 (VI) of 12 January 1952, 626 (VII) of 21 December 1952, 1314 (XIII) of 12 December 1958, 1515 (XV) of 15 December 1960; 1803 (XVII) of 14 December 1962, 2158 (XXI) of 25 November 1966 and 2692 (XXV) of 11 December 1970; and General Principle Three, adopted at the first session of the United Nations Conference on Trade and Development (UNCTAD).

National objectives and planning

The issue of sovereignty is related to the ability of the host country to shape its own objectives. These objectives may be explicitly formulated in a national plan. Differences in both scope and content between national and corporate planning are sources of conflict. 9/ It is not certain whether affiliates of foreign multinational corporations will sacrifice essential needs of the corporate global strategy in order to fulfil the requirements of the national plan. For instance, where the focus of the national plan is on rural development, or on the traditional sector, multinational corporation operations may concentrate on urban areas or on the modern sector. Where the national plan aims at more equal distribution of income, the effect of multinational corporations may be to accentuate inequality. Where the creation of employment is a major goal, the techniques and products introduced by the multinational corporations may be largely labour-saving. Moreover, the creation of wants similar to those of the developed societies through advertising may create a pattern of consumption that is unfavourable to development.

At the same time, the difficulty of reconciling national and corporate objectives may be partly due to deficiencies in the national plan. In many cases, plans fail to provide adequate guidance for the activities of the private sector, whether domestic or multinational corporations. When plan objectives are clearly stated and concrete measures are put into effect, multinational corporations may in fact be responsive to them. 10/

Pattern and process of development

Often it is not the divergency in explicit objectives but the subtle impact of the multinational corporation on the process and pattern of development that is the source of tensions and conflicts.

To begin with, the operations of multinational corporations may be destructive of the local economy. For instance, the introduction of machine-made goods may contribute to net output but only at the expense of displacing handicraft products. Although this is a common phenomenon in the process of modernization, caused also by domestic enterprises, the ousting of local products by the output of multinational corporations and the displacement of indigenous entrepreneurs by foreigners are highly visible and much resented.

9/ In contrast to the national private sector, managers of foreign corporations do not usually participate in the preparation of the plan, either because they are not thought to share national aspirations or because they are not given the authority by the parent company to commit it on essential issues.

10/ According to Behrman, there is evidence that multinational corporations have in many cases responded favourably by locating in depressed areas, e.g. Firestone, Goodyear and Courtaulds settled in depressed areas of France. See, J.N. Behrman, United States International Business and Governments (New York, 1971), p. 36.

On the other hand, when a multinational corporation operates in a more or less self-contained fashion, without any significant change in the old order, as though an oasis had been created in a desert, the question arises as to whether much benefit can be derived from the "enclave". Indeed, the enclave-type of activity may be considered a typical case of "growth without development", in the sense that fundamental economic structural transformation fails to take place on a broad basis.

In practice, even a foreign enclave has some links with the local economy. The linkages of multinational corporations with the host country economies, however, may sometimes be tenuous or limited. Recent studies suggest that almost half the inputs of foreign firms are supplied locally. The ratio is lower for export products than for those oriented toward the local market. Although the local share is not insignificant in most cases, it may fall below the host country's expectations.

From the point of view of the process of development, it is not only the amount of local inputs but also the type that is important. This depends on the activities of the foreign affiliates themselves. It is often observed that foreign affiliates tend to be "truncated". In other words, they do not "carry out all the functions - from the original research required through to all the aspects of marketing - necessary for developing, producing and marketing their goods. One or more of these functions are carried out by the foreign parent". 11/ Thus, research and development, and components and services, especially the more sophisticated, may be procured from the parent company or elsewhere. While such practices may be rational from the point of view of the global strategy of the multinational corporation, they are seen by some as an instrument for increasing the dependence of the periphery on the centre. More generally, the structure of industries in the host country may be so lopsided as to hinder sustained development. 12/ This is most glaring in cases where activity is highly concentrated in those sectors, such as luxury articles catering for the few, which have limited prospects of interaction with the rest of the economy. 13/ Indeed, not enough has been done either by the multinational corporations themselves or by governments to channel corporate production towards satisfying basic consumption needs in nutrition, health and housing.

11/ Government of Canada, Foreign Direct Investment in Canada (Ottawa, 1972), p. 405.

12/ H.G. Johnson, "The multinational corporation as an agency of economic development: some exploratory observations" in B. Ward, L. d'Anjou and J.D. Runnals, eds. The Widening Gap: Development in the 1970s (New York, 1971).

13/ S.H. Hymer, "The efficiency (contradictions) of multinational corporations", American Economic Review, LX No. 2, May 1970.

Technology and skills 14/

It has long been recognized that private direct investment through the multinational corporation is unique in providing from a single source a package of critical industrial inputs: capital, technology, managerial skills and other services required for production and distribution.

The scale requirements of present research and development activity, the decrease of technological and commercial risks in the development of new products and processes through multi-product and/or multinational operations, as well as the specific organizational requirements for the application of science and technology to economic needs, give a particular comparative advantage to the multinational corporation. Quite often this advantage has rested on its ability to combine for commercial use different developments in science and technology for which the basic research was undertaken elsewhere.

Indeed, multinational corporations generally do not undertake major innovative research without visible prospects of a substantial market, unless they are subsidized. Thus, although a large part of commercialized technology is in the hands of multinational corporations, the basic knowledge often originates in government-financed research and training centres. 15/ The contributions of multinational corporations derive from their ability to combine different kinds of lasting knowledge into commercially viable processes and products. In other words, the expenditure on technology financed by the corporation is in most cases related to practical development rather than to basic research. 16/

The part of research and development expenditures undertaken by the business enterprise sector appears to be concentrated in a few firms. For example, in 1964 in the United States, of more than 2,000 firms which reported research and development activities, 28 accounted for about 63 per cent of the total. Similarly, in France, 16 out of 440 enterprises accounted for 43 per cent of total research and development expenditure. 17/

14/ See tables 38 to 40 in annex III.

15/ According to the Organisation for Economic Co-operation and Development, a significant part of the research and development performed in the business enterprise sector was quite often financed by governments. For example, during 1963-64, of the total business enterprise research and development undertaken in the United States, 51.2 per cent was financed by defence, space and nuclear agencies. The equivalent percentages for other countries were as follows: United Kingdom 32 per cent (1964-65); Sweden 25.8 per cent (1964); France 24.9 per cent (1964); Federal Republic of Germany 13.5 per cent (1964); Austria 10.7 per cent (1963). See Organisation for Economic Co-operation and Development, Gaps in Technology, Analytical Report (Paris, 1970).

16/ In 1965 in the United States, out of total company-funded activities only 6.5 per cent went to basic research. See Organisation for Economic Co-operation and Development, op. cit., pp. 130 and 165.

17/ See Organisation for Economic Co-operation and Development, Gaps in Technology: General Report (Paris, 1968), p. 15.

Furthermore, the bulk of the research and development financed by corporations is done by the parent corporation or in the home country of the parent. For instance, in 1966 only 6 per cent of the total research and development budget of United States multinational corporations engaged in manufacturing was spent abroad.

As far as developed economies, which serve as both home and host countries, are concerned, technology flows and payments for them move in both directions between buyers and sellers, with different net effects depending on their relative magnitude. For developing countries on the other hand, the flow is predominantly or exclusively in one direction.

The significance of this one-sided flow is illustrated by data on six developing countries in the late 1960s. 18/ Payments by these countries for patents, licences, know-how and trademarks, as well as management and service fees, amounted to approximately 7 per cent of their combined exports and to a little more than half of 1 per cent of their combined gross domestic product. The total cost for such payments for 13 developing countries, representing 65 per cent of the total population and 56 per cent of the total gross domestic product of developing countries, is estimated at approximately $1.5 billion, which amounts to more than half of the flow of direct private foreign investment to developing countries. These payments are growing steadily at a rate which is estimated by the UNCTAD Secretariat at about 20 per cent per annum on the average and are absorbing an increasing proportion of the export earnings of developing countries. 19/

Estimates of royalties, however, may distort the true payments for know-how in various ways. The distortion may take the form of overpricing of intermediate products and capital goods, which are tied to the imports of technology, or the underpricing of exports to the suppliers of the technical know-how. Since royalties constitute only one of the channels of effective income remission, especially in the case of wholly-owned subsidiaries, changes in royalty payments do not necessarily imply changes in technology flows. They may simply reflect a readjustment in the distribution of returns among the different channels of income remission as a result of corporate strategy and government policies.

The effect of technological advances on the international market, given the existing concentration of products and know-how in the hands of the multinational corporations, has become one of the main causes of monopoly or oligopoly control. This is reinforced by the existence of specific legislative provisions, such as the patent laws, which give exclusive power over the use or licensing of certain innovations. The dedication of significant amounts of resources by the multinational corporations and their corporate commitment to technology is largely induced by the expectation of monopoly

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18/ Argentina, Brazil, Colombia, Mexico, Nigeria and Sri Lanka.

19/ See United Nations Conference on Trade and Development, Transfer of Technology, TD/106, 10 November 1971.

rents from new products and processes, as well as from the need to match the efforts of other such firms in order to protect their market participation and share. Since the technology supplied by the multinational corporations is proprietary and part of it is patented, an issue arises about the justification and impact of the system of patents and trade-marks. 20/

It should be noted that an important part of the technology required for most industries in developing countries is not subject to patents; the critical limitation these countries face is access to proprietary know-how. There is now a significant tendency to modify and strengthen the apparatus of national and international patent institutions into vehicles for the storage, retrieval and dissemination of industrial information and for facilitating direct contacts with licensors and other sources.

Multinational corporations are only one source from which enterprises in developing countries may acquire proprietary technology and management. For some technologies the options may be limited, but the situation is continually changing. Host developing countries are increasingly taking steps to reappraise the changing supply conditions for technology with a view to obtaining technology which will yield a larger measure of social benefits, as well as replacing imported proprietary technology and other factors with local inputs.

The policy objectives of host countries in this area have been multiple. The aim has frequently been to capture a larger share of a given net benefit in the use of technology from the local affiliates of foreign firms and/or to increase the total size of the benefit to be divided by promoting greater domestic value-added and various socially desirable "externalities", such as local skill formation. Another strategy has been to explore the possibility of disaggregating the package of foreign inputs, particularly by obtaining technology and management through commercial channels separately from capital. Among the alternatives are foreign minority joint ventures, licensing of proprietary information and management contracts, sometimes in various combinations or, in the case of so-called direct or "embodied" imports of know-how, by contracting for the construction and running-in of "turnkey" plants and by the direct purchase of specialized industrial equipment. 21/

Apart from reflecting negative attitudes towards control by the multinational firm and other motivations, the search for alternative vehicles for the acquisition of proprietary technology implies a recognition, particularly

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20/ The positions taken range from the extreme view of denying the economic justification of the patent system on the grounds of a theoretical "first best" welfare alternative of state ownership and distribution of all such industrial technology, to the advocacy of some tightening of regulations over the award to and use by licensors of such legal rights.

21/ "Turnkey" arrangements refer to contracts with foreign enterprises whereby the role of the latter is limited to establishing and bringing the plant into a position to begin operations.

by governments of developing countries, that the market conditions under which such technology is available, whatever the transfer mechanism, are those of an imperfect competitive market reflecting, on the one hand, a degree of market control or oligopoly by the suppliers and, on the other, various limitations on the bargaining power of enterprises in the host country and of the government of the home country itself. 22/

Another and increasing concern of the developing countries is whether the technology obtainable through the multinational corporation and other commercial channels is appropriate to their conditions. This is only part of the larger issue of the development and choice of appropriate technology - particularly in relation to the problem posed by superabundant labour and scarce capital and by the limited size of domestic markets - but the prominence of the multinational firm as a delivery vehicle for such technology and as a major agent of centralized research and development activity naturally focuses attention in respect of this problem on the performance of multinational corporations.

Employment and labour 23/

On the whole, the net employment impact on the host countries is positive since extreme cases of destruction of local industries and wholesale displacement of labour are rare. At the same time, the direct employment contribution by foreign affiliates is modest in a global perspective. 24/ This is indicated by data from the United States which is the largest contributor. In 1970, the total number of employees of United States majority-owned foreign affiliates amounted to about 3 million. When direct employment by foreign affiliates of other countries as well as other United States-controlled affiliates is added, it is probably no more than 13 or 14 million; this is a small fraction of total employment in market economies.

The indirect employment effects, largely arising out of the use of local suppliers, distribution channels and ancillary services, are, of course, much larger, but the total employment impact, while significant for the modern sector, is still modest in the context of the total economy.

For the developing countries as a whole, the employment contribution of foreign affiliates is small in relation to the massive employment problem.

22/ See Walter A. Chudson, The International Transfer of Commercial Technology to Developing Countries, United Nations Institute for Training and Research (UNITAR), Research Report No. 13 (New York, 1971) and a series of related UNITAR Research Reports; also UNCTAD, Guidelines for the Study of the Transfer of Technology to Developing Countries, December 1972, (United Nations publication, Sales No. E.72.II.D.19).

23/ See, International Labour Organisation, Multinational Enterprises and Social Policy, Studies and Reports, New Series, No. 79, (Geneva: ILO, 1973).

24/ Grant Reuber, "Private foreign investment in less developed countries", paper presented at International Meeting of Directors of Development Research and Training Institutes, Belgrade, 28-30 August, 1972.

This appears to be especially the case in respect of foreign affiliates' participation in the extractive industries which, when operated on a large scale, are highly capital intensive. In Venezuela and Chile, for example, despite the importance of oil and copper, labour employed in the combined petroleum and mining sectors accounted for 2.3 per cent and 4.1 per cent, respectively, of the total economically active population in 1960. Moreover, there appears to be very little growth in employment in the foreign-operated large-scale extractive industries. 25/

On the other hand, the effect of foreign affiliates on employment in specific localities is often a major attraction in a given multinational corporation project. This is especially true of depressed areas, where the location of a plant can make a significant contribution to solving the local unemployment problem. There is thus a tendency towards keen competition for the foreign enterprise among the various localities.

Moreover, the contribution through "learning by doing", especially for technical and professional employees, may be significant. 26/ Thus, an OECD study shows that for a sample of 50 foreign investment projects, local clerks and accountants accounted for 97 per cent of the staff concerned, foremen and supervisors 90 per cent, sales and marketing personnel 80 per cent, management and engineering personnel 73 per cent. There is, moreover, a tendency of the local share to increase over time, especially in the professional categories. Furthermore, many managers and technicians move from foreign affiliates to domestic enterprises. Nevertheless, the particular skills learned may be more suitable to the activities of foreign enterprises than for national development. Similarly, they may be associated with technologies that are inappropriate for local conditions. 27/

The relatively high labour standards generally adopted by foreign affiliates of multinational corporations are a mixed blessing. In some host countries, the wage rates paid by multinational corporations are several times higher than those prevailing elsewhere. The creation of an élite labour group raises irritating questions of competition, especially for technical personnel, with local enterprises. It also accentuates distortions in the wage structure, between occupational and skill groups as well as between rural and urban areas. Moreover, the standards imported from highly developed economies gradually tend to be adopted as a national norm, although they may be beyond the means of less-developed host countries, especially from the point of view of international competitiveness and employment.

25/ Constantine V. Vaitsos, Employment and Foreign Direct Investments in Developing Countries: Some Notes and Figures, Junta del Acuerdo de Cartagena, mimeographed document J/AJ/35/Rev. 1 (Lima, 1973).

26/ Council for Latin America, The Effects of United States and Other Foreign Investment in Latin America (New York, 1970), p. 5.

27/ Grant Reuber, op. cit.

Another source of tension is the impact on local labour when local plants are shut down in line with a global strategy. Although there is little evidence that this happens frequently, when it does occur the adverse effects are highly visible and attract public attention and reaction.

Balance of payments 28/

Evaluating the impact of multinational corporations on the balance of payments of host developing countries is no less complex a task than evaluating the impact on other economic variables. If the evaluation concentrates on the capital flow of direct investment, the effect on the host country is undoubtedly positive. For the developing countries as a whole, direct investment amounted to $4 billion in 1971, almost half the total official bilateral and multilateral flows. At the same time, if the earnings generated by past investment which accrue to the foreign affiliates are deducted from that flow, the net flow is generally negative for host countries. Between 1965 and 1970, net foreign direct investment inflow into 43 developing countries was 30 per cent of the investment income outflow. If the oil-producing countries in the sample are excluded, inflow was 68 per cent of outflow. 29/ The difference reflects the differing time patterns of capital flow and earnings rather than the balance of payments effect of a given investment. Nevertheless, in developing countries, where the supply of foreign exchange is often a problem, the excess of this outflow over inflow has been a familiar source of tension with multinational corporations. Such tension is particularly likely to occur in cases where a multinational corporation has operated in the host country for an extended period of time and where the outflow of investment income increasingly exceeds the inflow of new capital.

In addition to the effect on the capital account and the investment income account, a foreign affiliate also generates imports and exports. If it is assumed that these imports and exports would not otherwise be made, the trade effect on the host countries is generally positive. In Latin America, for example, in 1966, United States affiliates exported about $4.5 billion of their products and imported about $1.3 billion of materials and supplies.

When all the direct effects on the balance of payments accounts are taken into consideration, the net result in developing countries is usually positive, though it is more visible in the case of extractive industries than in the case of manufacturing, because manufacturing affiliates are heavily oriented towards

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28/ See also tables 41 to 43 in annex III.

29/ Another calculation of the flows, adjusted for petroleum, shows that between 1964 and 1968 the United States and the United Kingdom (representing 80 per cent of total foreign direct investment) received approximately $5.8 billion from developing countries (in investment income) and paid $3.2 billion (in capital flow). See, W.A.P. Manser, The Financial Role of Multinational Enterprise, (Paris, International Chamber of Commerce, 1973), pp. 17-30.

production for import substitution rather than for export, a fact which usually reflects the host government's industrialization policy. 30/ At the same time, the payments effect may be partly limited by export-restricting practices followed by the multinational corporation, and moreover, the import bill may be inflated by tied-purchases and over-pricing. 31/

The direct balance of payments effects of foreign affiliates do not, of course, answer the question of what the total effect may be. Thus, to the direct effects must be added the indirect effects resulting from the fact that the incomes and sales promotion generated by affiliates raise the level of income and thus induce higher consumption of imports and possibly even lower the export supply of some domestically produced goods. 32/ At the same time, insofar as the affiliate may serve as a "growth pole" stimulating the establishment of complementary domestic industries, it may also generate additional exports from the local production of other firms. Basic to the entire calculation of total trade effects is the question, at present unanswerable, whether the foreign affiliates' output is entirely additional to what would otherwise be produced or whether local replacement of output can be assumed.

When all the indirect effects are taken into account, the estimated net result varies with the assumptions made. For instance, a study of the impact of import-substituting United States manufacturing investment in developing countries reached different conclusions depending on the model used. 33/ The one based on the assumption that no local replacement was possible indicated a positive impact on the balance of payments of developing countries; the other, assuming local replacement, indicated negative impact in the case of Latin America, and neutral in other developing areas.

Other case studies made under the auspices of UNCTAD examined the over-all effect of several foreign manufacturing affiliates in Colombia, India, Iran, Jamaica, Kenya and Malaysia. 34/ It was found that in 55 per cent of a sample of 159 foreign firms, the impact was positive. In the case of the other firms, it was concluded that it would be cheaper for the host country to substitute its own capital for the existing foreign capital. However, 60 per cent of the firms

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30/ Among 159 foreign firms in Colombia, India, Iran, Jamaica, Kenya and Malaysia, 53 per cent had negligible exports or no exports at all. See, P.P. Streeten and S. Lall, UNCTAD, Main Findings of a Study of Private Foreign Investment in Selected Developing Countries, (TD/B/C.3/111), 1973.

31/ See UNCTAD, Private foreign investment in its relationship to development (TD/134), 1972.

32/ See detailed discussion in David Robertson, "The multinational enterprise: trade flows and trade policy" in John H. Dunning, ed., The Multinational Enterprise, (London, 1971).

33/ See G.C. Hufbauer and F.M. Adler, Overseas Manufacturing Investment and the Balance of Payments, (Washington, D.C., United States Department of Commerce, 1968).

34/ See, UNCTAD, TD/B/C.3/111, op. cit.

fall around the demarcation line between positive and negative impact, and only 21 per cent show a clearly positive, and 11 per cent a clearly negative, impact. On the whole, the study indicates that no conclusive results can be obtained. Uncertainty is high, as conditions change and effects differ greatly from case to case.

In host developed market economies, the impact of foreign direct investment on the balance of payments appears on the whole to be positive. In so far as evidence is available, the export performance of foreign affiliates seems to be as good as that of domestic firms and often better. It is better in the United Kingdom, for instance, where United States affiliates in manufacturing export on the average a quarter of their output - a much higher proportion than that of the average United Kingdom firm. 35/ It is equal to that of domestic firms in Canada and is increasing steadily. 36/ But it was also found, in Canada, that in a large number of cases foreign affiliates followed export-restrictive policies. This is apparently a reflection of the marketing strategy of parent companies, which try to protect export markets for themselves or for their other affiliates. They may also be obliged to resort to this practice either as a result of international market sharing with other multinational corporations, or in response to the governmental policies of the home country.

A large share of exports is, moreover, represented by intra-company sales. In the United Kingdom, half the exports of United States affiliates were made to affiliated firms. In Canada, as much as three-fourths of all exports of foreign affiliates were accounted for by intra-company sales in 1969. 37/ Such sales suggest a large scope for transfer pricing and the vulnerability of the host country's economy to foreign governmental or corporate policies.

As far as the import content of purchases by the affiliates is concerned, it appears to be relatively small in the case of United States affiliates in the United Kingdom and more important in Canada. Thus, three-quarters of the imports of foreign affiliates in Canada (which amount to one-third of their total purchases) originate with other affiliates and almost all the imports of United States affiliates originate in the home country. 38/

35/ J.H. Dunning, United States Investment in Britain (London, 1972).

36/ A.E. Safarian, Foreign ownership of Canadian Industry (Toronto, 1966). The share of exports of foreign affiliates to their total sales increased from 18 per cent in 1964 to 28 per cent in 1969. See Foreign Direct Investment in Canada (Grey Report), op. cit.

37/ The increase in this share from 52 per cent in 1964 largely reflects the very rapid increase in exports of motor vehicles under the Canada-United States Automotive Agreement. In 1969, more than four-fifths of the exports of foreign affiliates were made to the United States, while only half of total Canadian exports were sold to the United States.

38/ For the effect of short-term capital flows, see section on implications for the international monetary system below.

Socio-cultural considerations

The passage above has concentrated on the more tangible considerations. Even here, however, it is important to interpret these considerations in a broad sense. Thus, the issue of sovereignty is not simply jurisdictional but is intimately related to the rise of nationalistic feelings which may acquire special meaning as a rallying political force for cementing diverse interests and groups, especially in developing countries. The issue of development is not merely a matter of maximizing the growth rate of output but is inseparable from social needs and style of living. Even with questions of employment and balance of payments, it is sometimes the less tangible aspects that are more important.

The strong reaction against the multinational corporation in some host countries must therefore be understood in the broad socio-cultural context. The mere presence of powerful foreign enterprises may serve as a reminder of past foreign domination. The popular sentiment expressed in the form of consumer boycotts against the home country of certain multinational corporations testifies to the broad base of such sentiment and the readiness to make economic sacrifices.

In many host countries, there is growing dissatisfaction over playing a peripheral role, quite apart from the economic consequences. 39/ Host developing countries are, moreover, suspicious of the multinational corporations' style of doing things. Their financial power and easy access to the top hierarchy of government and business may be used, openly or covertly, to influence the domestic political process to their liking. Such alien influence is especially resented by local élite groups, such as intellectuals, government cadres, labour and business leaders, who see themselves as contenders for power and guardians of the values and heritage of the country. The multinational corporations, through their tacit alliance with certain social groups, may even be regarded as obstacles to appropriate social and political development.

The ostentatious living styles of foreign personnel as compared with those of domestic employees are a source both of envy and resentment. Styles of

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39/ See Raul Prebisch, Towards a New Trade Policy for Development, (United Nations, 1964); also, according to M. Wionczek in R. Vernon, ed., Latin America Views the Foreign Investor (New York, 1965): "The efforts of foreign capital to perpetuate the political and economic dependence of Latin America on the industrial countries, particularly dependence on the United States, represent probably the single most important element in the growing conflict between foreign private capital and Latin American society", p. 13. See also Edith Penrose, "The State and Multinational Enterprise in Less-Developed Countries" in J. Dunning, ed., The Multinational Enterprise, op. cit., and Andreas G. Papandreou, Paternalistic Capitalism, (Minneapolis, 1972). Even in host developed countries, similar views have been voiced; see, for instance, the 1969-1970 Report and Accounts of the Industrial Reorganization Corporation, (London, 1970). "Britain has also to protect her vital industrial interests as a state...if this was neglected Britain could find itself becoming a branch office economy where industries vital for growth, technology or defence were either absent or entirely directed from other parts of the world." p. 17.

management directed towards efficiency but insensitive to local cultural values may appear to people in the host country as arrogant and dehumanizing. Even the local people who receive a good technical training through working with the multinational corporations may be regarded as unduly influenced by alien values. Although these reactions may change with the change in attitudes on both sides, the intensity of the feelings that have been aroused should not be under-estimated.

The multinational corporation and the home country

Tensions between multinational corporations and their home countries have generally been kept down. Many home countries which are also hosts tend to view their own multinational corporations as a countervailing force to those of other industrial countries. European countries, for instance, often view theirs as an answer to the "American challenge", while Japan has endeavoured to make the activities of its multinational corporations consistent with its national objectives.

The chief home country to raise serious questions about the impact of its multinational corporations is the United States, whose experience as a host country is as yet very limited.

These questions range from domestic economic effects to balance of payments and foreign policies. Multinational corporations have been blamed for "exporting jobs" through "run-away plants" and for making high technology available to foreign lands or taking advantage of low-wage foreign labour. Moreover, the option open to the multinational corporation to locate plants in foreign countries tends to weaken the bargaining power of domestic labour.

As in the case of the consideration of the effect of multinational corporatio[ns] on employment, trade and the balance of payments in host countries, there is considerable uncertainty about the effects on home countries, the conclusions depending upon the assumptions made regarding what the alternative to the multinational corporation's activities would be likely to be. 40/ A recent study on the effect of investment abroad on domestic employment in the United States between 1966 and 1970 shows that, under certain assumptions, the presence of United States plants abroad may have resulted in a net loss of 400,000 to 1.3 million jobs. Under an alternative assumption, the net effect may instead

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40/ United States Senate, Committee on Finance, Implications of Multinational Firms for World Trade and Investment and for United States Trade and Labor (Washington, D.C., 1973).

have been a gain of about 500,000 United States jobs. 41/ Moreover, there were important industry differences. While most of the assumptions made are hypothetical, the result nevertheless demonstrates the importance of the underlying assumptions in any assessment.

Multinational corporations have also been blamed for deficits in the United States balance of payments resulting from capital outflows and an alleged reduction in the rate of increase of exports. Here also studies have indicated that different assumptions, regarding such questions as whether United States enterprises would have lost their export markets abroad if they had not made the investment, yield different results. 42/

Taking into account all the considerations, the governments and social groups of the home countries, especially the United States, are increasingly concerned with the implications of the activities of multinational corporations. The key issue is not whether the home country should hamstring or do away with the multinational corporations, but how their behaviour may be influenced so as to correspond more closely to a set of enlightened national and international objectives. In this connexion the entire range of policies and institutions, including tax, money, and trade and anti-monopoly machinery, will have to be reviewed.

41/ It should be mentioned in this connexion that the findings in five out of six earlier studies dealing with the domestic employment effects of foreign investments by United States multinational companies were that such investments had caused United States employment to increase. See, for example, Business International, First Report on the Business International Investment and Trade Study (New York, 1972); Emergency Committee for American Trade, The Role of Multinational Corporations in the United States and World Economies, vols I and II (Washington, D.C., 1972). National Association of Manufacturers, U.S. Stake in World Trade and Investment (New York, N.Y.); National Foreign Trade Council, The Impact of U.S. Direct Investment on U.S. Employment and Trade (New York, 1971); Stanley Ruttenberg, "Needed: A Constructive Foreign Trade Policy" (AFL-CIO, 1971); Robert Stobaugh and associates, U.S. Multinational Enterprises and the U.S. Economy (Cambridge University, 1972); U.S. Chamber of Commerce, Multinational Enterprise Survey (Washington, D.C., 1972).

42/ See, G.C. Hufbauer and F.M. Adler, op. cit.; Raymond Vernon, The Economic and Political Consequences of Multinational Enterprise: An Anthology (Boston, 1972); Robert B. Stobaugh, U.S. Multinational Enterprises and the U.S. Economy (Washington, D.C., United States Department of Commerce, 1972); Susan Foster, "Impact of direct investment abroad by United States multinational companies on the balance of payments", Monthly Review, Federal Reserve Bank of New York, July 1972.

Implications for the international monetary and trade régimes

The responses of host and home countries to the activities of multinational corporations may in turn be a source of tension between these countries. Action and reaction tend to be escalated, unless great restraint is exercised. Many countries have probably underestimated the international repercussions of their own actions. Thus, nationalization of property by some host countries, and "extraterritoriality" as practiced by some home countries (e.g. in the area of anti-trust law, security and exchange disclosure requirements, export controls and balance of payments regulations) raise many difficult jurisdictional issues. The extension of anti-trust policies abroad, for instance, although it may at times benefit the host countries by preventing monopolistic practices, can collide with the policies of host countries that encourage mergers as a way to rationalize their industries. Export controls motivated by political considerations can arouse political tensions in addition to conflicts of economic interests. At the same time, the double allegiance of the subsidiaries is put to critical test.

These problems underline the far-reaching implications of multinational corporations, not only for host and home countries but also for international relations. The implications for the international monetary and trade regimes, as well as some jurisdictional issues concerning taxation of multinational corporations which are in the forefront of world attention, should be especially noted.

Implications for the international monetary system

It has often been suggested that multinational corporations are capable of undermining the monetary policies of host as well as home countries. Credit restraint does not, for example, have the same effect on multinational corporations as on domestic firms in the host country because the former have greater access to the resources of the parent. Similarly, tight monetary conditions in the home country can be circumvented by shifting funds from subsidiaries.

Most recently, multinational corporations have been linked to the viability of the entire international monetary system. In particular, the massive movements by multinational corporations against the dollar have jolted the exchange parities and thrown doubts on the workability of the existing rules. There is no doubt that multinational corporations could precipitate a currency crisis if they were to move only a small proportion of their assets from one currency to another. At the same time, "hot money" movements would have resulted regardless of the degree of participation by multinational corporations, given fundamental conditions of disequilibrium that the monetary system is not equipped to correct.

The vast amount of liquid assets owned by multinational corporations, to the tune of several hundred billion dollars, is often cited as a source of potential danger. 43/ During the recent currency crises, massive international movements of funds were a well-known fact. At times, central banks had to absorb several billions of dollars in a single day. The "current assets" of foreign affiliates are frequently cited as a measure of the magnitude of the funds which multinational corporations can move at will at times of exchange disturbance. Foreign assets of local banks are used as a similar measure. It should be observed in this connexion, however, that current assets include inventories and receivables as well as cash balances. Not all of them are immediately convertible into other currencies, nor are they strictly comparable to international reserves. Moreover, a substantial component of the assets reported for United States banks consists of "collections outstanding for account of reporting banks and domestic customers" and "acceptances made for account of foreigners". These are not altogether available to the United States banks to be shifted at will to other currencies in moments of crisis. Even after such allowances are made, however, the orders of magnitude involved are substantial.

A number of multinational corporations have correctly stated that currency speculation is not their business and that predatory and destructive motivations should not be attributed to them. Yet the decision-makers of multinational corporations, which have assets and liabilities in different parts of the world and a variety of currencies, must take into account risks resulting from shifts in the exchange rates.

Quite apart from purely speculative activities, exchange rate questions enter into management decisions almost every day. Assets denominated in a currency which may be depreciated can be protected by a forward sales contract. Similarly, liabilities in a currency that is expected to be revalued can be covered in a forward purchase. In this connexion, it is not the current assets or cash balances alone that are subject to exchange rate risks. A broad range of assets and liabilities is involved which may in turn be responsible for a stream of future flows. Thus, at the end of 1970, foreign affiliates of United States firms had outstanding borrowings equal to about $11 billion, half of which had maturity dates in 1976 and beyond. It is clear that adverse movements in the exchange rate can significantly increase the burden of servicing the debt.

Protective measures against exchange risks do not necessarily have to be taken for each transaction or each subsidiary. If the decision-making with respect to currency operations is centralized, as long as the expected exchange-rate shift does not result in a net exchange loss, no action may be

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43/ See, United States Senate, Committee on Finance, Implications of Multinational Firms for World Trade and Investment and for United States Trade and Labor, (Washington, D.C., 1973).

considered necessary. Where action is required, the amount that may be shifted is not limited to the current assets or cash balance alone, since the ability to operate on the foreign exchange market depends on the over-all availability of credit to the firm.

Nor does a shift of funds necessarily involve the foreign exchange market. Various techniques of "leads and lags" can be employed. For example, affiliates in undervalued currency areas may be instructed to speed up collections and reduce their liabilities. 44/ In addition, if a devaluation is expected in a given country, the parent may instruct the affiliate to increase borrowing locally and make pre-payments to the parent or other affiliates in the hard currency area. Conversely, payments to the affiliate may be deferred.

In view of the variety of ways in which multinational corporations may affect the stability of currencies, however, the recorded transactions do not usually reveal the whole story. Currency transactions through banks, for example, do not reveal the identity of particular clients. Nevertheless, the large increase of claims by United States banks to $2.94 billion in 1971 from an average of $300 million in the previous five years, reflected shifts in currency holdings financed by short-term loans. A further substantial increase was recorded in 1972.

There is also some evidence in the large increase in intra-corporation claims of United States affiliates from $1.4 billion in the first three quarters of 1970 to $2.7 billion in the same period in 1971. This was apparently in anticipation of the exchange realignment prior to the Smithsonian agreement. A reversal of this flow of $0.9 billion was recorded in the fourth quarter of 1972. Similar behaviour is observed with respect to Japanese firms in changing claims on United States affiliates.

In addition to recorded transactions, the "leads and lags" and speculative movements are partly reflected in errors and omissions in the balance of payments accounts. In 1971, outflows from the United States recorded in errors and omissions amounted to $11 billion, almost half of which occurred in the third quarter. This compared with the average of $1 billion per year in the 1960s. After reversing the flow in the first quarter of 1972, errors

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44/ Multinational corporations often use a single invoicing centre to serve a large market area. The centre can use different time-periods for issuing invoices and enforcing collections located in different currency areas.

and omissions once more indicated increased outflows and reached as much as \$4.2 billion in the first quarter of 1973. 45/

45/ The net short-term outflow during that quarter was estimated at \$7.0 billion. This sum consisted of interest rate-sensitive funds, including a large increase in bank loans to foreigners who drew on their lines of credit, and funds moved via "leads and lags" in commercial payment. Further, despite a reduced trade deficit, deterioration in net invisible transactions might have caused the current account deficit to approach \$2.0 billion (on a seasonally adjusted basis), from \$1.6 billion in the fourth quarter of 1972. There was most probably a reduction in repatriated earnings of foreign subsidiaries of United States companies and shifts of funds out of United States dollars and into foreign currencies because of the considerable uncertainties in the foreign exchange markets culminating in the devaluation of the United States dollar by 10 per cent on February 12, 1973.

Following a decline in confidence in sterling in June 1972, errors and omissions in the "overseas sector" of the United Kingdom during the second quarter of 1972 registered an outflow of £883 million, compared to an inflow of £229 million in the same period of 1971. A part of the outflow was due to an acceleration of payments for United Kingdom imports and a delay in payments for exports. Additionally, United Kingdom banks shifted funds to the rest of the world by £215 million in the second quarter of 1972, as compared to an inflow of £263 million during the same period of 1971, and an over-all inflow of £532 million in the fourth quarter of the same year.

In the case of the Federal Republic of Germany in February 1973, when the realignment of the value of the United States dollar occurred, the inflow of funds was DM 5,938 million on short term capital and DM 6,961 million on unrecorded transactions, both of which were negative during the previous month.

In the case of Japan, on the other hand, short-term capital inflows rose to \$2,435 million for 1971, and \$2,035 million for 1972 (compared with an annual average during the preceding five years of a little more than \$300 million. Japanese foreign exchange banks reduced their net position in foreign currencies by \$2,808 million between August and December 1970 (in anticipation of the revaluation of the yen) and again by \$178 million in January 1973.

Similar currency shifts, reflecting the disturbances in the international currency markets occurred in all the developed market economies. The above examples demonstrate the magnitude of currency movements in anticipation of exchange rate realignments in which both financial institutions, non-financial institutions, and multinational corporations appear to be involved.

These volatile short-term capital movements reflected the international financial mobility that followed external convertibility of major world currencies toward the end of the 1950s. They also reflected significant interest differentials among the major money markets, as monetary policies have assumed greater importance in influencing the pace of business activities which have not always kept step in different countries. In addition, recent developments have demonstrated that exchange rate fluctuations, even among the major currencies, can be significant. 46/

Although the future international monetary system is still to be determined, some of the underlying reasons for short-term capital movements will continue to exist. The money markets of the financial centres of the world have been closely knit together and thoroughly entrenched in institutions, such as the Euro-currency markets and branch banking across the frontiers. The stability of the future system will thus depend on the degree of success in avoiding massive speculative movements.

In considering the various alternatives, it should be noted that in practice it is extremely difficult to distinguish speculative from ordinary transactions. Moreover, recent experience with various systems of exchange controls indicates that unless they are extremely rigid there are bound to be many loop-holes. At the same time, rigid exchange controls are fraught with familiar dangers. There is therefore no easy solution, other than a reform of the international monetary system and a reorientation of national policies which would provide for fundamental adjustments in the face of changing circumstances. At the same time, no matter how responsive to fundamental adjustments the system may be, the question will remain as to the need for compensatory capital arrangements as well as for some measure regulating, or at least monitoring, short-term capital movements under an international scheme in a future monetary régime.

Any such scheme should take into account the long-term implications of the operations of multinational corporations for the international monetary system, as well as the impact that a new system would have on these operations. In the past, foreign investments by multinational corporations have been stimulated by overvalued currencies in home countries. Income remitted by affiliates to parent corporations tends to increase the demand for the currency of home countries and the supply of the currency of the host country. Such demand on home country currency did not occur in the case of the United States dollar in spite of the expansion of United States foreign direct investment because of the existence of the Euro-dollar market. To some extent existence of this market is due to United States foreign investment but it has also served as a source of funds for further investment by multinational corporations.

46/ Pierre-Paul Schweitzer, "International Investment and the World Monetary System", an address to the Financial Analysts' Federation, Washington, D.C., 8 May 1973.

It is possible that in the long run the natural tendency of the multinational corporations to concentrate their vast funds in hard currencies, coupled with their enormous ability to shift these funds internationally even in the presence of strict capital controls, will tend to increase the frequency of parity changes or amplify exchange rate fluctuations.

Implications for the international trade régime

Trade is still a basic ingredient in monetary and payments equilibrium. Yet, for the multinational corporation, trade and capital movements are partially interchangeable options. Thus, in the general framework of decisions on the location of activities, exports from domestic plants may be replaced by investment and production abroad. A trade barrier may, for example, induce capital flow in lieu of trade flows.

At the same time, the multinational corporations are in themselves a major force in world trade. In many countries, a few multinational corporations are responsible for a significant portion of exports of manufactures. Moreover, intra-corporation trade has also grown in importance. Trade between parent firms and their affiliates, as well as among the latter, represents a major component of the total operations of multinational corporations. Since the goods and services entering intra-corporation trade do not involve "arm's length" transactions (i.e., transactions with non-affiliated firms at market prices) their prices are not determined by the market mechanism but by the corporations themselves. A firm's transfer prices are designed to satisfy a variety of requirements, and a number of factors are taken into account in determining their level, including the tariffs of the importing country, absolute and differential tax rates, actual or expected exchange rate differentials, government policies on royalty payments and profit transfers, the need to satisfy equity holders both in the home and host countries and numerous others. Transfer prices can also include payment for part of the corporation's global overhead cost much of which is incurred by the parent firm.

These characteristics have significant implications for the international trade regime. In the first place, the link between trade and investment has not as yet been adequately reflected in current trade negotiations. While trade negotiations might conveniently come under the auspices of GATT, a negotiating machinery and set of rules concerning investment and other activities of multinational corporations are as yet lacking. 47/

Another implication is that the predominance of intra-corporation trade may render the traditional adjustment mechanisms less sensitive. Thus, exports of machinery to affiliates or imports of components from them are unlikely to be influenced by minor cost changes, once the location of activities has been decided. This may render trade insensitive not only to domestic price changes but also to exchange rate adjustments. The lag in the improvement of the United States trade balance following exchange rate adjustments may have been partly influenced by this consideration.

47/ See below for suggestions for a programme of action.

A further implication for the trade regime is that trade conducted largely by multinational corporations tends to be influenced by oligopolistic considerations. Host countries tend in turn to react to the large size of multinational corporations by strengthening their bargaining positions. Some of these measures are undoubtedly protectionist in character, but most of them tend to reinforce the oligopolistic tendencies on both sides of international trade. In such circumstances there are real possibilities of mounting disputes or even trade wars. Whatever the trade regime may be, it is increasingly difficult to assume that the automatic rules of the "invisible hand" will operate smoothly.

The gravitation toward large bargaining units is reinforced by the evolution of regional trading groups. Basically, these groups apply two sets of trade regimes, one for insiders and the other for outsiders. They tend to encourage multinational corporation activities within a group. At the same time, they also encourage, intentionally or unintentionally, the location of activities by multinational corporations based in other groups. This tendency may, however, be increasingly neutralized by discriminatory measures against foreign affiliates. These measures range from scrutiny of investment, as well as finance, to anti-monopoly regulation or even price policies. It is evident, then, that in a world in which the activities of multinational corporations predominate, the international trade regime cannot be isolated from the international investment and monetary regimes or from domestic and regional policies.

Taxation and related jurisdictional issues

Governments and multinational corporations pose certain unique problems for each other in the field of taxation which are not found in the relationship between governments and purely national corporations. These problems arise primarily in the area of the corporation income tax. 48/ While this is the most widely used instrument of taxation, its ubiquity is not matched by uniformity: the taxation of corporate income varies significantly from one country to another. Differences among countries are found not only in the tax rates - which usually range between 35 and 50 per cent of profits - but also in the definitions of taxable income, in the principles that govern taxing jurisdiction and in practices in making allowances for foreign taxation.

In the face of these differences, the problem of the allocation of a multinational corporation's world-wide income among the taxing jurisdictions of the countries in which it operates assumes particular importance. The allocation affects, on the one hand, the tax revenue of the corporation's home country and the various countries in which the subsidiaries are located, and on the other the corporation's over-all tax bill.

48/ The individual income tax is often related to corporate tax since countries seek to avoid over or under taxation of corporate profits by the combined thrust of corporate and individual income tax. A part of the large problem of how to tax corporate profits is the question of how to treat dividends, undistributed profits and capital gains on the sale of corporate shares.

One of the most troublesome aspects of the allocation problem in the case of multinational corporations is that of "transfer pricing". The sale by a parent company to its foreign subsidiary, or by one subsidiary to another, of intermediate goods used as inputs by the purchaser is affected at an internal so-called "transfer price". Since there is often no market price for the goods in question and their pricing on the basis of cost plus a normal profit raises problems of costing - notably with respect to the allocation of overhead cost - the setting of the transfer price can be quite arbitrary.

Since the price at which goods are transferred determines the profits of the parent company or subsidiary which sells the goods, and the subsidiary which uses them in its production process, the distribution of a multinational corporation's world-wide profits among its various units depends on the level at which the transfer price is set. The corporation, operating within several tax jurisdictions, can minimize its over-all tax bill by establishing an artificial transfer price which will inflate the profits of subsidiaries located in countries where the tax burden is lowest and limit the profits earned in countries where taxes are higher. The tax authorities in the various countries, not having access to all the relevant data in the books of the parent firm and the affiliates, cannot determine their consolidated profits or evaluate the reasonableness of the transfer prices. They must therefore base their tax assessment on the book profits of the enterprise within their jurisdiction.

The setting of transfer prices at unreasonable levels can not only serve to minimize a corporation's over-all tax bill, but can also be used to circumvent exchange restrictions, minimize customs duties, satisfy local partners of foreign subsidiaries and for a variety of other purposes. In order to avoid disputes and uncertainty arising from the problem of transfer pricing, a few countries, including the United States 49/ and the Federal Republic of Germany, have made or are making an effort to formalize certain rules to be followed for transactions "not at arm's length". Further action in this field will need to be taken if existing anomalies are to be eliminated.

The problems that surround the taxation of multinational corporation activities are further exacerbated by differences in the taxation principles followed by various countries. While every country claims the right to tax income arising within its borders ("territorial" principle), some also claim the right to tax income arising outside their borders when that income is received by a corporation incorporated, domiciled or with its centre of control within the country ("world-wide" taxing principle). In these circumstances, a claim to tax income arising abroad implies double taxation. It also implies that competition among firms within a given host country will take place under different tax rates if the home countries of these firms follow different taxation principles.

49/ The concern over the regulation of transfer prices and the transfer of technology readily fall under the jurisdiction of existing national tax laws. The United States Treasury, for example, has elaborated some acceptable methods for determining the allocation of research costs. Such elaborations were designed to define more precisely the taxable income arising from these transactions. See Detlev F. Vagts, "Multinational enterprise", Harvard Law Review, vol. 83 No. 4, pp. 767 and 770.

In fact, however, those countries which tax income arising beyond their borders grant tax credit on account of foreign taxes paid on income from foreign sources, usually up to the level of the domestic tax rate. 50/

In the United States the credit provision is very broad, encompassing both withholding taxes and corporate income taxes and extending down through three tiers of foreign subsidiaries. 51/ This unilateral credit reflects the willingness of the United States Government to give priority to the host country in taxing corporate profits while it retains the power to set the lower limits of the combined taxation. On the other hand, if a foreign government grants a tax holiday and if the subsidiaries repatriate their profits to the United States as dividends during that holiday, the absence of tax in the host country confers no benefit on the United States corporation. The tax holiday only remains effective if earnings are not repatriated during the holiday period.

Although the "world-wide" taxing countries have unilaterally granted credit for income tax paid abroad, double taxation or undertaxation has not been altogether avoided. Partly for this reason, several developed market economies have concluded bilateral tax treaties, which are designed to ensure that foreign taxes paid by multinational corporations incorporated in or managed from a world-wide taxing country will not encounter the problem of "excess taxation". Such excess taxation is especially apt to arise if, in addition to a substantial corporate income tax, the government of the host country imposes heavy withholding taxes on dividends, interest and royalties paid by the foreign subsidiary to its parent firm. Under the tax treaties, contracting countries agree to limit their withholding taxes to relatively low levels. Developed countries have been able to reach agreement on such treaties chiefly because of the similarity of their economies and the existence of a two-way flow of income between them. Since the flow of investment income between developed and developing countries is predominantly in one direction - from the subsidiary in the developing to the parent in the developed country - the latter cannot offer a meaningful concession to its partner in exchange for an agreement by the developing country to keep its withholding tax rates low and tax treaties between them are therefore rare. 52/

50/ If the host country's tax rate is higher, the difference is not refunded by the home country. In effect, it is the higher of the two rates that applies.

51/ For a brief history of the United States foreign-tax credit, see, United States Senate, Committee on Finance, Implications of Multinational Firms for World Trade and Investment and for U.S. Trade and Labor (Washington, D.C., 1973), pp. 874-75.

52/ A group of tax experts established under the auspices of the United Nations, under Economic and Social Council resolution 1273 (XLIII), has been formulating guidelines which reflect a compromise between the interests of developed and developing countries. A broad consensus has already been achieved on a majority of issues.

Instead of inter-country agreements on tax matters, developing countries have tended to conclude agreements with multinational corporations concerning a specific project or group of related projects. They refer chiefly to the granting of tax relief as an investment-inducing measure, and usually also include such non-tax matters as convertibility of earnings at a fixed rate and other benefits. Tax relief ranging from generous depreciation allowances to tax holidays has also been granted independently of agreements between government and corporations by both developed and developing countries. Some small countries observing the territorial principle and also taxing profits at zero or very low rates have attracted multinational corporation subsidiaries and holding companies. While these countries benefit from the financial and commercial activity that grows up around the subsidiaries, the multinational corporations, by making their profits appear to be within the jurisdiction of the "tax haven", minimize their over-all tax burden. The effectiveness of the incentives granted depends in part on the attitude of the home country. Whereas some encouragement has been given to multinational corporations to invest in developing countries, 53/ agreements between host countries and multinational corporations are not allowed to contravene the tax laws of world-wide taxing home countries. Furthermore, there is a discernible tendency among home countries which follow the territorial principle to move towards the world-wide taxing principle and to tax profits when they are repatriated and in some cases even when they are not.

The question of the discontinuation of tax deferrals for non-repatriated profits is probably most urgent in countries belonging to common markets. In the European Community, efforts have been made towards the gradual harmonization of direct taxation. 54/

Another force that is gradually making for more uniform taxation of multinational corporations arises out of dissatisfaction over the variety of methods at present employed to integrate the corporate and individual income tax. 55/ Many countries fear that other countries' methods of integration may become more attractive to direct investment. 56/ Decisions on

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53/ For a list of United States measures that encourage investment in developing countries, at least relative to investment in foreign developed countries, see Implications of Multinational Firms ... op. cit., pp. 71, 124-25, 882-84. This list is important, since "the great majority of multinational corporations are based in the United States ..." ibid., p. 868.

54/ See "Tax harmonization measures planned for first stage of the proposed economic and monetary union" in European Taxation, vol. 11, No. 3, March 1971. Work in the field of taxation is also done by the Organisation for Economic Co-operation and Development, through a new Committee on Fiscal Affairs established in 1971.

55/ See Carl S. Shoup, Public Finance (Chicago, 1969).

56/ For a lengthy description and analysis, with many numerical examples, see "A comparative analysis of the classical, dual rate, and imputation taxation systems and an examination of the corporate tax systems in Belgium, France, Germany, Italy, the Netherlands and the United Kingdom", European Taxation, vol. 12, Nos. 5 and 6, May-June 1972, pp. I/112-174.

investment and the distribution of profits are affected by countries' policies regarding the taxation of distributed and undistributed profits in connexion with taxation of dividends. In some countries, shareholders are given tax relief for profits taxed at the corporate level, in others, a "split rate" tax is used under which distributed profits are taxed at reduced rates. Among the European Community countries, there is now a tendency to move towards the relief of the shareholder method, as witnessed by the recent adoption of this system by the United Kingdom. 57/ There is finally a large number of countries, including the United States and most developing countries, which do not accord relief for distributed profits. Withholding taxes on dividends, interest and royalties paid to recipients abroad, on the other hand, are often regulated by tax treaties.

Although it does not appear that an immediate crisis in the taxation of multinational corporations is pending, there is a tendency to long-term deterioration that could eventually result in drastic unilateral actions by governments, or even by the corporations themselves in respect of their investment decisions.

57/ United Kingdom, "Tax Reform", European Taxation, vol. 12, No. 3, March 1972.

Summary

One of the main actors in contemporary international relations is the multinational corporation. Although its interests and objectives usually transcend those of home and host countries, it can in turn be affected by intergovernmental relations and it may even be used by some governments as an instrument of foreign policy. Its power and spread allow it to influence, directly or indirectly, the policies and actions of home and host countries and at times to contribute to placing countries in interdependent or dependent positions. Multinational corporations can, to some degree, cause jurisdictional disputes among governments and sometimes, when they succeed in drawing their home countries into their own disputes with host countries, political confrontations.

Relationships between multinational corporations and nation-states can produce tensions and conflicts. Divergencies in objectives and scope of operations are exacerbated by differences in power. Traditionally, host countries, and recently some home countries also, have found that the global context in which corporations operate and the many options open to them can restrict the effectiveness of government policies.

In spite of reservations, the majority of host countries have, on the whole, encouraged foreign direct investment, usually attempting to obtain a tacit "trade off" between the political, economic and socio-cultural costs and benefits.

To many host countries - especially developing - the location of decision-making centres outside their

borders suggests that the multinational corporations may foster a pattern of international division of labour which perpetuates politico-economic dependencia . A number of host developed countries also see the increased presence of multinational corporations in key sectors as an encroachment on their independence.

The impact of multinational corporations thus raises questions ranging from permanent sovereignty over resources to possible conflicts with national priorities and to distortion of consumption patterns and of income distribution. The evaluation of the economic costs and benefits of multinational corporations raises many methodological problems, and conclusions often depend on the assumptions made regarding alternative ways of action. The impact on employment in developing countries, for instance, appears to be generally positive though modest in the context of the total economy. The balance of payments effect, on the other hand, hinges on many factors, including the sector, area and period in the life of the investment.

Technology and skills are some of the major elements in the direct investment package. The multinational corporation is the primary supplier of technology either through direct investment or in other ways. One of the main advantages of the multinational corporation in this field is its ability to develop into commercially viable products and processes technological knowledge often generated elsewhere, in particular in government-financed research. The concentration of research and development activity in the home countries of relatively few firms contributes to the technological dependence in which host countries and especially developing countries find themselves. Royalty payments do not fully reflect this technological dependence, in view of the multinational corporation's ability to maintain its monopolistic and oligopolistic position through a variety of practices, such as transfer pricing. The appropriateness of technology and the possibility of obtaining it through alternative means have become an increasing concern of host developing countries.

The economic impact is only one aspect of the effect of multinational corporations. The reaction of governments or social groups towards them must also be seen in the social and cultural context. The perceived threat to the country's traditions and heritage often affronts the nationalistic or reformist forces of the host country.

Tensions have also arisen between multinational corporations and home countries. In the United States, the effect of multinational corporations on employment and the balance of payments is a matter of concern to organized labour, while other groups are scrutinizing the effect on international relations. The multinational corporation has also been singled out as affecting monetary, fiscal and trade policies.

At the international level, the operations of multinational corporations have an important bearing on the functioning of the entire international monetary and trade system, both in the short and the long run. The recent currency crises have focussed attention on "hot money" movements. Although such movements have been more a symptom of fundamental defects in the system than a basic cause, any reform of the monetary system will have to consider possible scrutiny of short-term capital movements as well as compensatory arrangements.

The implications of the multinational corporations for the international trade regime are equally wide. In the general framework of decisions on the location of world-wide activities, capital flows may be partially substitutable for trade flows. Furthermore, the predominance of intra-corporation transactions in trade may render adjustment mechanisms less sensitive and limit free market operations.

At the international level, multinational corporations are also connected with the main jurisdictional issues arising among governments. In addition to questions arising in connexion with the implications of nationalization and "extra-territoriality", taxation of multinational corporations creates many difficult problems. Inter-country differences in tax rates, definitions of taxable income and taxation principles regarding income accruing abroad are compounded by transfer pricing practices which affect income allocation, and different schemes of compensation for taxes paid abroad practiced by governments. While bilateral tax treaties, mainly among developed market economies, have provided a partial solution in their case, alternatives need to be explored, especially in respect of the developing countries.

IV. TOWARDS A PROGRAMME OF ACTION

The foregoing analysis has demonstrated that the issues raised by the operations of multinational corporations are not only complex but their implications on international relations and economic development are far-reaching. The positive contributions of multinational corporations to the many facets of development have been readily recognized. At the same time the problems raised have become increasingly visible. The generally favourable reception given to multinational corporations in the host countries in the immediate post-war years, as vehicles for scarce capital, modern technological know-how and skills and as a link to the world market, has been tempered by scepticism and concern. Even in some home countries, questions of possible conflicts in interest between multinational corporations and various social groups have been raised.

In the search for solutions separate item-by-item or issue-by-issue approaches are not likely to be effective. In the first place, most of the issues identified are inter-related, whether they pertain to sovereignty, size, concentration, competition, <u>dependencia</u>, development objectives, "truncated" development, monetary and payments disequilibrium, labour relations, alternative means for the sale or transfer of technology, location of industries, or equitable distribution of benefits. Secondly, many key issues already identified do not lend themselves to frontal attack at the international level, given the present world realities. An untimely debate on solutions on which no possible agreement can be reached may in fact block progress. Finally, while some issues can no doubt be singled out for special study, a concerted approach is still needed so that the essence of the problem is not missed and a basis is laid down for future evolution.

The appropriate strategy for action would therefore appear to be to concentrate on the setting up of an appropriate machinery whereby many key issues can be dealt with flexibly and simultaneously. Thus, monitoring the activities of multinational corporations could cover a broad area, but it could at the same time be selective, and both the degree of selectivity and the precise follow-up measures could be adapted to changing circumstances. In this connexion, while the emphasis is on immediate practicability, many issues which are more difficult and which require a long lead time before real action on them is possible could also be dealt with in stages, including the building up of capabilities at the national, regional and international levels, through studies, exchange of information and co-operation. In the following pages, some suggestions will be made along these lines. Before these concrete suggestions are discussed, a brief review of recent trends in policies will provide a background.

Recent Trends in Policies

Among the most evident trends affecting the operations of multinational corporations has been a number of recent cases of nationalization and expropriation. Across-the-board measures affecting both domestic and foreign firms are almost as common as those concentrating on foreign firms. When measures have been specially aimed at multinational corporations, there has usually been a high degree of selectivity. In many countries, developing as well as developed, a substantial sector has been reserved for nationals only. In addition to certain sectors, such as defence, in which most governments prohibit foreign ownership, a number of industries, such as transport, communications, banking and insurance, have increasingly come to be reserved for national ownership. This has been reflected in the declining share of activities of multinational corporations in these areas in many countries. Similarly, although industries such as aeronautics, the automotive industry, electronics, computers and oil are not explicitly reserved to nationals, foreign intrusion has been vigorously resisted by informal and *ad hoc* government intervention.

Another significant recent development is the attempt by host countries to gain participation in or control of multinational corporations in their territories. In the countries belonging to OPEC (Organization of Petroleum Exporting Countries), a phased increase in participation will mean complete fade-out within a decade. Indeed, because of the very strong financial position of some of the OPEC countries, proposals have been made for participation in multinational corporations in the home countries as well.

In a number of countries there has been a move to establish some form of machinery for screening foreign investment. In Canada, for example, following a series of investigations, the *Foreign Investment Review Act* was proposed in January 1973. In Australia, active consideration is being given to machinery for the regulation of foreign investment, in addition to numerous measures already introduced, such as curbs on exports of minerals and surveillance of intra-company accounts. In Mexico, new foreign investment laws introduced in 1972 require foreign investment to be registered with the National Foreign Investment Registry (*Registro Nacional para la Inversion Extranjera*). A further series of measures require 60 per cent local ownership of auto part manufacturers, set limits on component production and limit purchases of foreign technology.

A major exception to this trend is Japan where, traditionally, the activities of foreign multinational corporations have been strictly limited. It was not until 1973 that measures for the significant and progressive liberalization of foreign investment were introduced, partly as a measure in a negotiated package for correcting huge payments surpluses and partly as a reflection of growing confidence in the competitiveness of domestic industries. At the same time, case by case screening of foreign investment has been retained for primary industry, oil, leather and leather products and retail trade.

At the regional level, the most far-reaching measures are those that have been adopted by the Andean Group. 1/ A set of procedures and guidelines has been decided upon with respect to foreign investment and the transfer of technology. Moreover, current investors are required to sell majority holdings to local investors, and new investors from outside the region must take minority positions, within a period of 15 to 20 years, in order to be eligible for Andean Pact trade concessions. Several economic sectors are closed to direct foreign investment, and foreign investors in these sectors have been given three years to divest themselves of 80 per cent of ownership. 2/

In the European Community, a major recent development affecting multinational corporations concerns the rules of competition. A recent ruling by the European Court makes many restrictive agreements entered into by multinational corporations of doubtful validity, even in those countries where the multinational corporations involved are registered. The expansion of the Community from six to nine members has introduced further uncertainty as to the continuation of past practices. Another, related, development has been the effort to gradually harmonize direct taxation.

In home countries too, there has been a tendency towards stricter scrutiny of the activities of multinational corporations. The numerous Congressional investigations in the United States in recent years are the most striking. 3/ The Foreign Trade and Investment Act of 1973 recently re-introduced in the United States Congress 4/ would, among other provisions, authorize the President of the United States to prohibit any transfer of United States capital to another country, to delete tariff provisions which would permit the importation of goods processed from United States materials at reduced tariff rates (Sections 806.30 and 807), and to increase taxes on earnings of United States subsidiaries. Although the outcome is as yet uncertain, the amount of support the Act has gained so far indicates the prevailing sentiment in important sectors, such as organized labour and certain local industries. In introducing the Trade Reform Act of 1973, the President of the United States stated that "in ... cases where unusual tax advantages are offered to induce

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1/ Bolivia, Chile, Colombia, Ecuador, Peru, Venezuela.

2/ Andean Group, Historia Documental del Acuerdo de Cartagena, (Acuerdo de Cartagena, Junta).

3/ The most recent instances are the investigations of the Sub-Committee on Multinational Corporations of the Senate Foreign Relations Committee and the Sub-Committee on International Trade of the Senate Committee on Finance.

4/ Originally introduced by Senator Hartke as Senate Bill 2592 on 28 September 1971, and by Representative Burke on the same day in the House of Representatives as Bill 10914, and re-introduced as the Foreign Trade and Investment Act of 1973 - H.R. 62 in the United States House of Representatives and S.151 in the United States Senate.

investment /abroad/ that might not otherwise occur" such inducement should be removed. 5/

Programmes of multinational corporations

The response of the multinational corporations to this new atmosphere has not been limited to a defence of their activities. 6/ It has extended to positive measures which attempt to deal with some fundamental causes of criticism. On the whole, many multinational corporations have become more cautious in exercising their power. Attempts by some multinational corporations to induce others to adopt common programmes against certain host countries have been generally rejected. Standards for good citizenship in host countries have been actively promoted. The policy guidelines and priorities of the host countries have on the whole been taken more seriously. Attempts have been made to increase the local content of goods produced (e.g. the local content of Sears' products ranges from 80 to 90 per cent) and foreign participation in decision-making and management (e.g. Xerox, Black and Decker Manufacturing, Texaco, Exxon, First National City, Westinghouse and IMA among others have foreign directors). Several companies have offered shares for local subscription (e.g. in the Philippines) and "fade out" arrangements have been offered in several recent investment proposals.

The efforts of individual companies have been formalized by a collective effort of the International Chamber of Commerce. A set of guidelines for international investment has been established. 7/ These guidelines include local equity ownership, local participation in management and promotion of local personnel to posts of responsibility as well as suggestions for government behaviour. In general, multinational corporations are urged to act as good citizens of the host country, i.e. to respect the national laws, policies and social objectives of the host country, and to engage in activities which fit into the host country's economic and social development plans and priorities.

While these self-imposed guidelines are timely and educational, their efficacy is likely to be limited. Inasmuch as the guidelines are only expressions of general principles, they are subject to varying interpretations, and even ostensibly good behaviour may be mere window-dressing. For example, local

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5/ United States Department of State, Bulletin, 30 April, 1973.

6/ See, for example, publications by the Emergency Committee for American Trade, The Role of the Multinational Corporation in the United States and World Economies (Washington, D.C., 1972), by the United States Chamber of Commerce, United States Multinational Enterprise: Report on a Multinational Enterprise Survey (1960-1970), (Washington, D.C., 1972), and by the National Association of Manufacturers of the United States, Comments on International Activities of United States Multinational Corporations (New York, 1973).

7/ See, International Chamber of Commerce, Guidelines for International Investment (Paris, 1972).

participation may be in the hands of mere figureheads. One suggestion that has been made in this area is the establishment by multinational corporations of a private revolving fund, possibly supplemented by government finance, and managed by an ad hoc committee of representatives of a few key host countries, for the purpose of providing to host countries (especially developing countries) the requisite accommodating finance for facilitating adjustments which are forced upon them in response to economic policies implemented by the home countries. Such a measure would be a recognition of the concept of "corporate social responsibility", defined as "voluntary restraint of profit maximization" and "sensitivity to social costs of economic activity and to the opportunity to focus corporate power on objectives that are possible but sometimes less economically attractive than socially desirable". 8/

A concomitant suggestion is the proposal for corporate social audit 9/ which has been eliciting increasing interest during the last few years. It may very well be only a matter of time before the attributes of "good corporate international citizenship" can be cast in the framework of accounting relationships and quantified along lines already developed for carrying out the social audit of domestic companies. 10/ If such proposals are adopted special taxes might be imposed on multinational corporations to compensate the host economies for inflicted social costs and tax-exemptions might be granted to reward them for social benefits.

Programmes of organized labour

The behaviour of multinational corporations has in some cases been influenced by programmes initiated by labour groups. 11/ In addition to traditional methods of collective bargaining at the national level, labour groups have become increasingly aware of the need to counter multinational corporations by multinational labour action. For example, the possibility that, when a particular plant is on strike, goods from other subsidiaries may

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8/ Kenneth R. Andrews, "Can the best corporations be made moral?", Harvard Business Review, May-June 1973, p. 57.

9/ Raymond A. Bauer and Dan H. Fenn, "What is a corporate social audit?", Harvard Business Review, loc. cit., p. 37.

10/ For example, David I. Linowes, "An approach to Socio-Economic Accounting" in The Conference Board Record, November 1972. Also, Ralph Nader and Mark J. Green, eds., Corporate Power in America - Proceedings of Ralph Nader's Conference on Corporate Accountability (New York, 1973). According to Rodman C. Rockefeller, president of the International Basic Economy Corporation, "by creating wealth, foreign business...overlooked a major area of social accountability", The New York Times, 14 April, 1972.

11/ See, International Labour Organisation, Multinational Enterprises and Social Policy, op. cit.

be imported or production be shifted to plants in other countries to supply the market can be forestalled by multinational labour action. The Secretariats of the International Federation of Chemical and General Workers' Unions, the International Union of Food and Allied Workers' Associations and the International Metal Workers' Federation have been active in promoting such multinational action. More generally, these Secretariats seek participation in the decision-making process so that the social implications of corporate activities, at least from the point of view of organized labour, will be closely scrutinized. 12/ Most labour groups also favour the establishment of a code of conduct at the international level. 13/

While multinationalization of labour may act as a countervailing force *vis-à-vis* multinational corporations, such international orientation on the part of labour may come into conflict with nation states. Indeed, efforts to influence the bargaining process by citing better and more generous conditions elsewhere may not always be welcome in a host country. Sympathetic strikes in support of labour disputes in other countries are illegal in many places. Moreover, important labour groups within a country may find their interests diverging from the national and international points of view. For example, barriers erected against certain imports may be considered beneficial to labour in a particular nation but detrimental to labour in the exporting country. Restrictions placed on the outflow of capital and technology may be favoured by labour in a home country, but undesirable from the point of view of labour in other countries.

Home country programmes

Private efforts by business and labour to influence the behaviour of multinational corporations can be greatly strengthened by government action in the home countries. Recent developments indicate that few home country governments would be prepared to give unquestioning support to multinational corporations in cases of dispute with the host country. At the same time, the possibility of intervention by home country governments remains. 14/ It would therefore be helpful if the attitude of the home countries could be made explicit through a formal renunciation of interference in the internal affairs of host countries. There would be merit in the adoption of such proposals as the

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12/ Programmes regarding labour participation in decision-making have been put forward by some authors. See, for example, Angelos Angelopoulos, "Towards a tripartite administration of large-scale enterprises", *Annals of Public and Co-operative Economy*, (Liege, January 1973). It is suggested therein that the Board of Directors of large corporations should be tripartite, consisting of representatives of shareholders, employees and personalities nominated by the government and elected by the other two groups.

13/ For example, the International Confederation of Free Trade Unions approved such a code in July 1969.

14/ For example, the United States Foreign Assistance Act of 1961, as amended, contains a provision (known as the Hickenlooper Amendment) to the effect that "aid will be cut off for any country that expropriates and has not within six months of such action taken appropriate steps to discharge its obligations under international law".

Calvo doctrine, 15/ which would ensure that subsidiaries did not appeal to their home governments for protection or support, or obtain it from them.

Since home countries often treat the foreign subsidiaries of their multinational corporations as extensions of the parent firms and attempt through their policies to affect the behaviour of these affiliates, conflicts with host countries can develop. 16/ This practice, if not curtailed, should at

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15/ The Calvo doctrine was named after a distinguished Argentine jurist of the 19th century. Calvo argued that a state could not accept responsibility for losses suffered by foreigners as the result of civil war or insurrection, on the ground that to admit responsibility in such cases would be to threaten the independence of weaker states and would "establish an unjustifiable inequality between nationals and foreigners".

To prevent appeals by aliens to their home governments for diplomatic intervention in behalf of their contract rights, a number of Latin American states, during the latter part of the 19th century, adopted a policy of writing into their contracts with aliens a clause, known as the "Calvo Clause", the general tenor of which was that the alien agreed that any disputes that might arise out of the contract were to be decided by the national courts in accordance with national law and were not to give rise to any international reclamation.

The decisions of international arbitration tribunals and of mixed claims commissions upon the subject have been conflicting, some upholding the Calvo Clause as a bar to the interposition of the alien's government, others rejecting it on the ground that the act of the alien can not restrict the rights of his government under international law.

As Latin American governments generally interpret the Calvo Clause, they would deny all local rights and remedies to any foreign-owned subsidiary if the subsidiary called on a foreign government in a dispute with its host government.

16/ Such conflicts have arisen in the past in the settlement of questions involving national security, anti-trust, export, securities and banking regulations. In the case of the United States, for instance, the basic rule was given in the Alcoa decision in which a Canadian corporation was held to have violated the Sherman Act by entering into agreements outside the United States which were intended to restrict exports to the United States. The Justice in the United States Second Circuit Court of Appeals stated that "it is settled law...that any state may impose liabilities, even upon persons not within its allegiance, for conduct outside its borders that has consequences within its borders that the State reprehends". (United States v. Aluminum Co. of America, 148 F.2 and 446, 443, 2nd Circuit Court, 1945). The logical application of this principle to two nation states led to the conflict in the case involving Imperial Chemical Industries (United Kingdom) and Du Pont (United States).

least be exercised with full realization of its effects on foreign affiliates and ultimately on host countries. In areas which have been chronic sources of friction with host countries, restraint on the part of home countries in regard to policies affecting foreign affiliates is particularly desirable. On the other hand, home countries could use their power of surveillance over their multinational corporations and their authority over their nationals employed by them to enforce (probably through a regulatory agency) the disclosure of information and auditing of multinational corporations. Such a procedure would indirectly help host countries in their relations with affiliates of those corporations.

It has been generally recognized in home countries, that the contention that what is good for the multinational corporation is good for the country is no longer persuasive. There is, for example, the possibility of collusion with host countries in the oligopolistic exploitation of the market at the expense of the home country. There is also a real possibility that certain activities may be moved abroad wholesale in order to avoid high labour and environmental standards at home. Some machinery for screening the foreign activities of multinational corporations, such as exports of capital and technology, may therefore be needed, in addition to the existing measures concerning taxation, monopoly, securities and exchange. In most home countries, where the activities of multinational corporations are usually kept from the public eye, a greater measure of public disclosure as suggested above would greatly promote the accountability of these corporations.

Host country programmes

Action can also be taken by the host country, either independently or in connexion with positive action taken by the home country. A number of host countries, for example, have written the Calvo doctrine into their foreign investment law. Foreign firms which appeal to their home governments in cases of dispute will be penalized accordingly. Such unilateral application of the Calvo doctrine by host countries however will tend to be largely ineffective unless it is also adhered to by home countries. Willingness on the part of home countries to accept such measures as the Calvo doctrine will be increased if the host countries adopt policies such as "national treatment", i.e. non-discriminatory treatment as compared with national enterprises.

Moreover, as a measure to reciprocate the acceptance of the Calvo doctrine by home countries, host countries could incorporate in their basic legislation guarantees of economic rights to foreign affiliates, such as procedures for compensation following nationalization and even the use of a previously specified formula determining the level of such compensation. 17/

17/ See R. Vernon, Sovereignty at Bay, op. cit. p. 279, P. Kindleberger, American Business Abroad (New Haven, 1969).

General economic and social policies are as important to the behaviour of multinational corporations as programmes that affect them specifically. At the most general level, if a host country does not possess a coherent development plan or strategy, it will hardly be possible for the multinational corporation to work in line with national objectives and priorities.

A critical requirement of a multinational corporation is a reasonably stable environment in which growth and profitability is possible. 18/ Vacillating policy by host governments is perhaps as damaging as no policy at all, or even defective policy. Most multinational corporations are prepared to take the host country conditions as given in their profit-loss calculations. Thus in several recent cases, the completion of nationalization programmes has been the signal for numerous inquiries about investment opportunities because an important element of uncertainty has been removed.

While each host government must formulate its own policies towards multinational corporations, there is a general need for the whole apparatus of policies affecting multinational corporations to be kept under review. As a beginning, broad policy measures such as development planning objectives and strategies and trade and fiscal policies require thorough review and appraisal. More specifically, measures such as investment incentives and machinery for dealing with multinational corporations also need to be considered.

The institutions that have to deal with multinational corporations are frequently scattered in host countries. Policies are not well co-ordinated and their execution is often feeble and haphazard. A policy co-ordinating body, consisting of senior officials from various relevant ministries, such as finance, planning, mining, industry, trade and agriculture, might be established in the first instance. At the same time, since most countries have some form of control over the activities of multinational corporations, the review process might be centralized in an agency specially created for the purpose. Such an agency would in turn be instrumental in developing specific criteria for decisions concerning the approval of particular projects and the precise procedures to be followed. It would also be able to build up a nucleus of competent people equipped to deal with technical, complex and delicate problems.

In addition to strengthening their reviewing process and machinery, some host countries may wish to increase their participation in the decision-making of multinational corporations. This is sometimes attempted by means of rules of thumb requiring a minimum share in local equity or membership in boards of directors. A host country, for instance, can take steps to facilitate local

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18/ For example, the code of behaviour to facilitate the inflow of foreign investment proposed by the International Chamber of Commerce contains a number of guidelines for host countries.

participation in the equity ownership of foreign affiliates. 19/

To facilitate local equity participation - leading in some cases to total local ownership - the establishment of "Disinvestment Corporations" has also been advocated. 20/ Such corporations could acquire the shares of affiliates to be divested with a view to selling them ultimately to local investors.

An alternative approach to participation in decision-making might be through a development corporation. 21/ This approach has the advantage of flexibility and facilitates co-ordination of policy. At the same time, the task can be entrusted to a relatively few experienced and authoritative people. Moreover, a development finance corporation could also provide finance for local industries, prevent take-overs and build up local enterprise, thus serving as a counterweight to multinational corporations. Where financial resources are relatively abundant, a development finance corporation could also provide a vehicle for the gradual "fade out" of selected foreign enterprises.

Several proposals for regulatory activity by the host country are contained in the Report of the Task Force on the Structure of Canadian Industry. 22/ While proposing that the entry of new multinational firms should be facilitated, the authors of the Report recommend the creation of "a special agency" with authority in the following areas: making mandatory the submission of information necessary for the surveillance of foreign-owned firms; examining licensing agreements, international market sharing agreements and taxation

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19/ Several countries require affiliates to float shares on the local stock-exchanges (e.g. Brazil, Chile, Colombia, Jamaica, Mexico). Some foreign corporations have complained, however, that the presence of a narrow local capital market in many host countries inevitably leads to the accumulation of such shares in few powerful local hands, thereby rendering local participation on a broad basis impossible. When such a concentration occurs, conflicts frequently develop between local ownership interests favouring a high dividend-payout policy and foreign interests which opt for reinvestment of profits and growth.

20/ See A.O. Hirschman, "How to disinvest in Latin America, and why", Essays in International Finance, No. 76, (Princeton, International Finance Section, November 1969). Dr. Prebisch proposed that such an agency should be established within the Inter-American Development Bank. The International Chamber of Commerce in op. cit. recommends that the host country should "take appropriate measures, principally by encouraging the creation or development of an effective capital market, to facilitate the purchase of equity in domestic and foreign-owned enterprises by local interests" (Article II(3)(c)).

21/ Originally proposed for Canada, the purpose of the corporation would be to procure sufficient management skills and capital to undertake new ventures; see W. Gordon, Chairman of the Royal Commission on Canada's Economic Prospects, Final Report, (Ottawa, 1958). See also I.A. Litvak and C.J. Maule, op. cit., p. 41.

22/ Report of the Task Force on the Structure of Canadian Industry, op. cit.

procedures; facilitating import technology and international co-operation on investment guarantees, in addition to harmonizing anti-trust policies and international charters. The agency could be empowered to take over additional functions as particular situations dictated. Among them might be the certification of the over-all accounting practices used by the affiliate, including the method used to determine transfer prices for items sold by the parent company. Much friction has resulted in the past over the use of such practices 23/ and a clear understanding of what in fact constitutes nationally acceptable accounting procedures for use by affiliates might well be in order. Further, the agency could advise the government on the enactment of measures needed for implementing national policy towards foreign investments.

Regional programmes

One main limitation of host country programmes is that they may be rendered ineffective or untenable by the offer by other countries of more attractive programmes. This is particularly likely within a regional grouping, such as a common market. When one member of the group seeks to restrict certain activities of a multinational corporation, such as the takeover of a company in a key industry, the multinational corporation may elect to establish itself in another member country. Since trade within the group is relatively free, such restrictive policy tends to drive away the foreign investor while failing to protect the domestic industry. It is useful, therefore, to adopt harmonization policies with respect to the treatment of multinational corporations. A harmonization policy on investment incentives can be greatly facilitated by a common industrial policy. At the same time, multinational corporations can also serve as positive instruments helping to achieve industrial integration schemes. For instance, once a scheme is negotiated and made known, multinational corporations can plan to implement it. In some cases, however, multinational corporations may render industrial integration schemes inoperative. When governments are not firmly committed to the principle of regional co-operation, they may be tempted by offers of investments by multinational corporations in their territories that are not in accordance with the scheme.

The harmonization of review processes is even more difficult than that of investment incentives, since the essence of such a process is flexibility. It can be achieved by the establishment of a central machinery and by explicit agreement on the reviewing process, such as is contained in the Andean Pact.

23/ A discussion of the difficulties resulting from such practices is included in "Transfer of Technology" (UNCTAD, TD/107), 29 December 1971, and Constantine V. Vaitsos, "Considerations on Technological Requirements in Developing Countries, with Observations on Technology Licensing Agreements", (United Nations Industrial Development Organization, ID/WG 130/2, 21 April, 1972).

By increasing the size of the "bargaining unit" from national to regional, the six member countries of the Andean Common Market can impose rules upon, and command concessions from, multinational enterprises that could not have been realized by any one of the member countries acting alone. Further, by expanding the size of the market to which a foreign investor can gain access, thereby increasing the profit potential, the member-countries have provided an added inducement for potential investors to carry out the reorganization required for conducting business under the rules of the region.

The ability of individual, especially developing, countries, to attract foreign investment and regulate the activities of multinational corporations is greatly enhanced by the formation among them of regional economic integration groups. The more effective economic integration is among the member countries, the greater their collective ability to present a countervailing force to multinational corporations. 24/

International programmes

Since the tensions and conflicts that arise from the operations of multinational corporations are international in character, programmes which are limited to one side or to only some of the parties concerned are unlikely to be adequate. In fact, some of the programmes, though desirable from the point of view of the initiator, may generate a series of reactions which are not entirely predictable.

Thus, efforts to raise the bargaining power of one side may induce the other to take similar action. This is especially the case in the longer-run, as has been frequently illustrated in the field of raw materials, where substitutes may be developed and sellers' monopolies may nurture buyers' monopsonies.

Moreover, it is not always possible to ensure even that a one-sided measure benefit the side it was designed to protect. The success of certain host countries in obtaining larger revenues from multinational corporations may be accompanied by price increases which would shift the burden to consumers, including many developing countries, rather than result in a reduction of the corporation's profits.

International measures are clearly necessary to achieve a balanced and more equitable solution. Those which appear to be ripe for immediate consideration are briefly assessed below.

24/ B.D. Nomvete, "The African Experience: Iron and Steel in West Africa", pp. 281-286, and "Multinational Investment in Africa", pp. 287-302, in Multinational Investment in Latin America (Round Table, Inter-American Development Bank, Bogota, Colombia, April 1968).

An international forum

The least that the international community can do is to provide a forum. The purposes of a forum may range from the airing of views to discussions and studies of issues that may lead to action. The United Nations already provides a general framework for such a forum. What should be considered is whether a more systematic effort should be launched. It has been suggested, for instance, that the Economic and Social Council might consider whether the discussion of multinational corporations should become a more or less regular feature of its agenda, and its deliberations be aided by the establishment of a subsidiary body which might permit the expression of views by all the parties concerned. Because of the political nature of many of the issues that concern multinational corporations and the need to co-ordinate the related work of many United Nations bodies, it would probably be desirable to keep the main forum at a high level. A hearings procedure might be especially appropriate for issues that concern private as well as government interests. Expanded work in the United Nations on multinational corporations would of course need to be backed up by a corresponding work programme within the Secretariat.

A multinational corporation information centre

An appropriate work programme at the United Nations would undoubtedly include the systematic gathering, analysis and dissemination of information. Pertinent studies by government agencies, private research institutions and interested groups already number in the thousands but there are still many serious gaps which need to be filled. For instance, more information is required on: (a) inter-affiliate flows of goods and services and their pricing; (b) the international distribution of specific activities such as the generation of technology and skills as well as managerial and equity control; (c) the actual financial flow of international direct investment, as distinct from the capitalization of know-how, the revalorization of assets, and the transfer of second-hand equipment since the common practice of including these items in investment statistics results in serious distortions; (d) the specific effects that such firms have on governmental policies on matters such as tariff structures, credit availability, legislation on industrial property and restrictive business practices, as well as access to alternative sources of supply of goods and services.

The type of detailed information needed in national review processes is in general difficult to obtain. For example, when a particular investment project is checked for its reasonableness, the data required are frequently missing. Such data, and expertise in finding them, will have to be gradually developed as experience is gained. Much of the work could be performed at greatly reduced cost through the elimination of duplication if it was centralized in the United Nations.

Technical co-operation

In view of the vast amount of information and knowledge that relates to this subject, United Nations involvement would, in the first instance, have to focus on a few key areas. In addition to the aforementioned proposals, attention might be concentrated on expanding the capacity for assisting national and regional programmes concerning multinational corporations. In particular, developing host country programmes are generally hampered by lack of adequate information. The staff concerned at the United Nations Secretariat could become the nucleus which, supported by additional expertise, could carry out such technical assistance assignments.

The availability of pertinent information to developing host countries would tend in itself to strengthen their position in dealing with multinational corporations and thus to redress the inequality of power. On the other hand, without a certain amount of expertise to start with, proper use cannot be made of the information. Technical assistance should therefore be broadly extended to include the review of machinery and procedures for dealing with multinational corporations. For example, developing host countries which screen the operations of multinational corporations need to have the expertise to do so. In some cases, they may even need external assistance in the negotiating process since they will be facing teams of competent economists, lawyers, engineers and business managers on the opposite side of the bargaining table. Here again, much preparatory work would be required, including the building up of a corps of key multi-disciplinary personnel, so that technical co-operation teams could be organized and fielded with a minimum of delay.

Such assistance is particularly important since the results of negotiations with multinational corporations directly affect the distribution of benefits among the participants and also have implications for income distribution within the host country. Negotiations determine more specifically how key decisions are made, the extent and type of contribution of local and foreign inputs, the size of the market for the final product, and at times even delineate the kind of impact that the activity may have on governmental policies and in the social and political fields.

Technical co-operation activities should be supplemented by training activities. The expertise required for dealing with multinational corporations is usually hard to obtain from traditional training institutes. Special arrangements would have to be made, including the development of instructional material from case studies of developing as well as developed host countries.

A particularly useful area for case studies would be an analysis of selected contractual arrangements with multinational corporations. The documentation of past mistakes and deficiencies could aid future negotiations. Model contracts incorporating the essential features could be developed for ready reference. Expertise developed in preparing such studies would be helpful in actual negotiations and possible renegotiations.

The collection, analysis and dissemination of information, technical co-operation and training programmes could be implemented and co-ordinated in the United Nations. The functions would need to be carefully defined in order to avoid overlapping and duplication of the on-going work of other United Nations bodies.

In a broad sense, technical co-operation in all fields is an ingredient in the transfer of technology to developing countries. The expansion of this channel could help to lessen to some extent the dependence of developing countries on the multinational corporations, which often insist on a complete package that may contain ingredients that are not entirely acceptable to the host.

Harmonization of national policies

As noted earlier, much international conflict could be avoided by the harmonization of national policies. The degree of harmonization attainable is intimately related to the cohesion of the world community. A high degree of harmonization among countries is feasible within a regional grouping or one with similar economic systems and levels of development.

A most important area for harmonization is taxation. Since the sources of profit of multinational corporations are world-wide, questions always arise as to which part of the total profit should be attributed to a particular enterprise or taxed by a particular authority. To some extent, bilateral international tax treaties have eliminated double taxation, and screening by tax authorities of such practices as transfer pricing has deterred payment evasions. A more systematic multinational effort needs to be pursued. In particular, the possibility of developing simplified procedures or rules concerning the allocation of profits for tax purposes needs to be explored.

In view of the present complicated system of taxing multinational corporations, several reforms have been suggested. Developing countries, for instance, might agree with foreign multinational corporations on certain guidelines for revenue sharing. One issue in this connexion is transfer pricing, which at present is virtually at the discretion of the multinational corporations, with the exception of petroleum and certain other products. The disparity between the expertise of tax officials in developing countries and that of the multinational corporation is usually too large to allow the reasonableness of transfer prices to be correctly evaluated. This is an area in which initiatives taken at a regional level, as in the Andean Group, or at an international level through technical co-operation, would be particularly rewarding. 25/ A withholding tax on interest paid by affiliates, which at times absorbs a large part of their operating income, or alternatively, taxation of the operating income of affiliates without any deduction for interest, has also been suggested, provided that a degree of fairness in implementation can be guaranteed.

A United Nations Ad Hoc Expert Group on Tax Treaties between Developed and Developing Countries has prepared four reports in which a significant clarification of the issues, and a notable degree of consensus on specific points in respect to revenue division, have been achieved. 26/

25/ See Tax Treaties between Developed and Developing Countries, Second Report, 1970 (E/4936, ST/ECA/137), p. 67, where the establishment of an international panel of tax experts to give advice to developed and developing countries is recommended.

26/ United Nations, Department of Economic and Social Affairs, Tax Treaties Between Developed and Developing Countries, First Report, 1969 (E/4614, ST/ECA/110); Second Report, 1970 (E/4936, ST/ECA/137); Third Report, 1972 (ST/ECA/166). The Fourth Report is available in mimeograph.

In the relationship between developed countries and multinational corporations, inter-country inconsistencies regarding transfer pricing might be dealt with through the exchange of information and informal contacts between the tax officials of the countries concerned, or eventually through the establishment of an international tax court. 27/

On the other hand, developed countries might agree, as far as possible, to a uniform and stable method of integrating the corporate tax and personal income tax, with full attention to the international aspects. An intensification of the current work by the European Community and the Organisation for Economic Co-operation and Development is perhaps all that can be called for at present.

The most urgent point at issue among the developing countries is that of competition among themselves for foreign investment.

Complete agreement on incentives is hardly to be expected, and may not even be desirable, but agreement might be reached on many points, such as the maximum length of tax holidays, the relative emphasis on withholding-tax incentives and corporation income tax incentives, limits to accelerated depreciation, and the level and scope of application of investment credits.

There seems to be no existing organization of developing countries that is technically qualified to help their governments with advice on tax policy and the benefits available under various countries' tax systems. Perhaps a world-wide tax policy body representing all the developing countries (however defined) might be constituted. Wide publicity given to discussions in such a policy body could at least alert the developing countries to the dangers they now face in (a) competing with each other for multinational corporate investment, and (b) failing to take full advantage of tax relief afforded by, or negotiable with, the developed countries.

A radical change in the taxation of multinational corporation profits would be the adoption of a factor-formula technique, now in use by states of the United States. Under this approach, a taxing country would allocate to itself a share of the multinational firm's aggregate profits, the proportion being

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27/ The United States Secretary of the Treasury suggested in an address to the International Fiscal Association, on 4 October, 1971, that "international codes of conduct should be developed and enforced with respect to international fiscal matters ... We should promptly explore the feasibility of creating a continuing secretariat with a staff of experienced fiscal experts and more frequent and thorough discussions among the representatives of participating nations. This might be accomplished under the aegis of an existing international organization or through the creation of a new organization, perhaps affiliated with an existing body."

calculated on the basis of a number of factors, such as the percentage share in the corporation's world-wide payroll paid within the taxing country, the proportion of its world-wide sales made within the country, and possibly others, including property ownership. Each of these apportioned factors would be given a stated weight. The weighted factors would then be averaged and the resulting average for the factors would be the proportion that would be applied to the firm's world-wide profits in order to determine the amount of profit taxable by the country concerned.

What seems clear from the discussion above is that the present policy of drift, although mitigated by exceptions such as the work of the United Nations tax experts and the fiscal group of the Organisation for Economic Co-operation and Development, is needlessly costly. The inevitable conflicts of interest are being resolved only bit by bit, and the emerging pattern is somewhat incoherent. In their efforts to develop, many developing countries continue to forego some revenue to which they may be entitled, while multinational corporations are sometimes forced to use inefficient methods of doing business in order to minimize their total tax bills.

Since tariff concessions are also used as special incentive measures, the tariff negotiations to be held under the auspices of GATT should attempt to achieve some harmonization among the developing as well as the developed countries. A major complication in such an attempt is that in some countries tariffs are mainly used to offset inappropriate exchange rate and monetary policies. Efforts on the tariff front should thus be accompanied by parallel action on the fiscal and monetary fronts.

A similar effort for the harmonization of disincentive measures is probably both less necessary and more difficult. On the whole, the range of restrictive policies is very wide, since some countries may wish to have little to do with multinational corporations, while others, the majority, aim only at certain safeguards within a general framework of encouragement.

Another area for international harmonization is restrictive business practices. There was, in fact, a provision in Chapter 5 of the Havana Charter in this direction as early as 1947. 28/ A similar attempt was made in the early 1950s by an Ad Hoc Committee established by the Economic and Social Council. 29/ Although both of these attempts failed to achieve their objectives, owing to lack of agreement, there has been a renewed interest in this area as indicated by the recent work of the United Nations Conference on Trade and

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28/ The United Nations Conference on Trade and Employment, held at Havana, 1947, drew up a charter for an International Trade Organization, known as the Havana Charter, to be submitted to the governments represented at the Conference. See Final Act and Related Documents (New York, 1948).

29/ Economic and Social Council resolution 375 (XIII) was adopted in 1951. Pursuant to that resolution, the Draft Articles of Agreement prepared by the Ad Hoc Committee were submitted to the Council in 1953. When no agreement was reached in 1955, the Council decided to suspend examination of the question.

Development, the European Community and the Organisation for Economic Co-operation and Development. 30/ Such work should form a valuable part of a broader approach to multinational corporations by the United Nations.

The report by the Ad Hoc Group of Experts of the United Nations Conference on Trade and Development underscored "the need for continuing discussions on restrictive business practices and the finding of appropriate solutions to a number of problems ... as well as the desirability of further pursuing the possibility of drawing up guidelines on restrictive business practices". 31/

The European Community's policy on competition is backed up by a supranational organization with investigative and punitive power. Although this model might be too ambitious for a global approach, one of the functions of an international machinery to ensure the accountability of multinational corporations might very well be the investigation and consideration of complaints of restrictive business practices. This presumes, however, that some general agreement is reached on what constitutes restrictive business practices and which practices may be subject to investigation.

A final area for harmonization is environmental regulations. These can be regarded as a special type of investment incentive since relatively lax regulations may serve the same purpose as other cost-reducing incentives. They can also be regarded as a trade restraint measure, since stringent regulations may serve the same purpose as a non-tariff barrier. International negotiations on environmental measures should therefore give special attention to their implications for the activities of multinational corporations.

A General Agreement on multinational corporations

In theory, all these guidelines and rules of conduct could be codified in a multilaterally negotiated charter and an international organization such as the International Trade Organization could be set up to administer it. Discussions held so far indicate that there is considerable resistance to a powerful supranational machinery, since a high degree of cohesion among independent nations is still lacking. The desire for a less powerful form of machinery finds expression in such proposals as a GATT-type of agreement for multinational corporations. 32/ A General Agreement on Multinational Corporations, patterned after GATT, would lay down a limited set of universally accepted principles. The agency set up to administer the Agreement would have the power to investigate and make recommendations. As the agency gained reputation, its decisions would be accepted voluntarily by the countries or companies involved.

30/ UNCTAD, Restrictive Business Practices in Relation to the Trade and Development of Developing Countries: Report of Ad Hoc Group of Experts on Restrictive Business Practices (Geneva, 1973); Organisation for Economic Co-operation and Development, Market Power and the Law: Report of the OECD Committee of Experts on Restrictive Business Practices (Paris, 1970); see also Richard I. Fine, "The control of restrictive business practices in international trade: a viable proposal for an international trade organization", The International Lawyer (April, 1973).

31/ UNCTAD, op. cit.

32/ Paul Goldberg and Charles Kindleberger, "Toward a GATT for investment: a proposal for supervision of the international corporation", Law and Policy in International Business, (Summer 1970).

Even this weaker form of proposal might be considered too ambitious at this stage. 33/ Nevertheless, some general agreement on a code of conduct for multinational corporations is not beyond reach. Although such a code might be mostly in general terms and its enforceability might be limited by unwillingness to establish a strong agency to administer it, it would at least have an educational value. Moreover, the code could be gradually improved upon and serve as a guide for the review of multinational corporation activities by the United Nations. The possibility of negotiating such a code should thus be explored, and this might very well be one of the work programmes of the Economic and Social Council, as suggested earlier.

A Supranational Corporation

The efforts by multinational corporations to broaden ownership, control and management at a truly international level, and various national and international ways of making multinational corporations more sensitive to the goals and priorities of host countries, may ultimately have the effect of transforming these corporations into almost supranational bodies. In the present circumstances, however, they continue to exist as national legal entities. In view of the concentration of the ownership, control and management of multinational corporations in the hands of nationals of a relatively small number of countries, it is at present difficult to imagine any process which will bring about the true internationalization of these corporations. But even if this goal were achieved, the basic question would still remain: what goals would such a corporate entity promote and whose welfare would it maximize?

For the present, as a first step towards dealing with this problem, corporations which satisfy certain criteria of "multinationality" and which agree to observe certain requirements, such as minimum disclosures, periodic reports and disavowal of restrictive business practices, might be registered with an agency of the United Nations, such as a Centre for Multinational Corporations. These corporations would be subject to international screening. At the same time, there is a presumption that they would be internationally accountable and socially responsible. In the event of a dispute, they might use the good offices of the United Nations body to conduct an independent study and report.

A more formal internationalization or denationalization of corporations might be the chartering in special instances of supranational corporations or "cosmocorps". 34/ Under this suggestion an international company law would be established and administered by a body of the signatory countries. A variant of

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33/ See, for example, a number of papers presented at the Conference on the International Control of Investment held in Düsseldorf, sponsored by the Institute for International and Foreign Trade Law of the Georgetown University Law Centre, Washington, D.C., to be published by Praeger, New York.

34/ See George W. Ball, "Cosmocorp: The Importance of Being Stateless", Columbia Journal of World Business (November/December 1967), and testimony in Hearings before the Sub-Committee on International Trade, Committee on Finance, United States Congress, World Trade and Investment Issues, Part I, (Washington, D.C., May 1971).

a supranational corporation can actually be found in the International Bank for Reconstruction and Development which is a specially created public financial institution. Another is the Agreement establishing Interim Arrangements for a Global Commercial Communications Satellite System, which has private as well as public participation. The nearest model for a supranational corporation is the proposed European Company in the European Community. 35/ The European Company, operating under a European Company Act, would not be part of any national legal system but would be a creation of European Community law. Moreover, innovations might be introduced with respect to company structure. Thus, according to the proposal made by the Commission, employees would be given effective rights and responsibilities of collaboration in the Company, although not direct participation in the decision-making process at the management level. This is patterned after the company laws of some European countries, especially the Federal Republic of Germany. 36/

Recent proposals for the creation of an international authority for the regulation or exploration of resources of the sea-bed beyond the limits of national jurisdiction indicate further possibilities for the creation of supranational machinery. 37/ These proposals also indicate difficult problems of control. The pending negotiations with respect to the sea-bed would thus throw light on possible arrangements concerning the creation of supranational corporations or machinery dealing with them.

International machinery for the settlement of disputes

Without a strong international authority, disputes involving multinational corporations and host countries fall within national jurisdictions, which are often inadequate or conflicting. The Convention on the Settlement of Investment

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35/ The Commission of the European Communities' proposal is contained in a special supplement to European Community Bulletin, No. 8, 1970.

36/ See, Karl Gleichmann, "The Proposed European Company Law: Implications for Industrial Relations" in Management Counsellors International, European Labor Relations in the 70's: An Overview, Part I (Brussels, 1973). Labour participation in corporate policy making has also been an objective of certain international labour unions in their dealings with multinational corporations. For example, The International Metal Workers' Federation has had a series of meetings with the Board of Directors of VFW-FOKKER since 1970. Among the topics proposed by the Federation for discussion was the creation of a central committee of the Union at the Company's head office.

37/ See, Reports of the Committee on the Peaceful Uses of the Sea-Bed and the Ocean Floor Beyond the Limits of National Jurisdiction, Official Records of the General Assembly, XXVIth Session, Supplement No. 21 (A/8421) and XXVIIth Session, Supplement No. 21 (A/8721).

Disputes 38/ provides a limited machinery for conciliation and arbitration but its work has thus far been very limited, chiefly on account of the non-participation of many countries, notably in Latin America, on the grounds that disputes in their territories should come under national jurisdiction. Moreover, the practical usefulness to the participants will have to be demonstrated by the outcome of the first case in its history (Morocco versus Holiday Inn). 39/ On the other hand, there have been a number of recent cases in which resort to the settlement of disputes through this channel has been specified in agreements between host countries and multinational corporations. The possibility of a wider use of this machinery might be considered. In addition, other machineries, such as conciliation and arbitration through the International Chamber of Commerce, might also be explored. 40/ In view of the difficulty of attempting to "settle" disputes, the emphasis might be placed on "prevention". Technical co-operation in the preparation of model contracts and the development of a multidisciplinary team for aid in negotiations with multinational corporations as suggested above might be one of the first steps in this direction.

38/ See, International Centre for Settlement of Investment Disputes, Convention on the Settlement of Investment Disputes between States and Nationals of Other States, which entered into force on 4 October 1966 (ICSID/2, 1965).

39/ International Centre for Settlement of Investment Disputes, Proceedings: Sixth Annual Meeting, 28 September 1972 (Document AC/72/4, 1 November 1972).

40/ International Chamber of Commerce, Rules of Conciliation and Arbitration (Paris, undated). It should be noted that under the conciliation procedure of the International Chamber of Commerce, the parties are at liberty to accept or reject the proposed terms of settlement. Under the arbitration procedure, the arbitrators are appointed by the Court which does not itself hear cases. The award of the arbitrator is final. See also "International Commercial Arbitration" in United Nations Commission on International Trade Law Yearbook, Volume III, 1972. (United Nations publication, Sales No. E.73.V.6), pp. 193-250.

Summary

The multifarious issues raised by the multinational corporation, if left unattended, may have far-reaching consequences. At the present stage of the public debate most of the issues are too complex and too far-reaching for ready solution and the appropriate strategy for action would appear to be to concentrate on the setting up of sufficiently flexible machinery that is capable of implementation. Appropriate programmes of action need, moreover, to be initiated by the private sector, as well as at the national, regional and international levels.

1. Programmes of multinational corporations and labour

There is much that the multinational corporations themselves can do. Many of them have already become more cautious in the exercise of their power and more sensitive to their social responsibilities. This new consciousness tends to be sharpened by multinational labour union programmes. These individual efforts could be greatly enhanced by the adoption and acceptance of a common code of behaviour.

At the same time it must be admitted that these efforts will not suffice in themselves. There will inevitably be cases of important deviations from good behaviour, and self-policing or sanctions will pose problems of internal disputes as well as external credibility.

Moreover, many issues are complex, and well-meant measures are often double-edged. Thus, the adoption of high labour standards may be beneficial to the employed but may also impose hardships on indigenous enterprise and diminish opportunities for the unemployed. The provision of company health and educational services may raise the level of living of employees but interfere with local schemes.

2. Home country programmes

The behaviour of multinational corporations can be greatly influenced by the attitudes and actions of their home countries. It is significant that multinational corporations can no longer count on unquestioning support by the home country in any dispute. A more judicious avoidance of interference and a formal renunciation of extra-territorial applications, through the adoption of the Calvo doctrine for example, would improve the atmosphere and allay host countries' fears of foreign domination. Some screening and even auditing of the operations of multinational corporations and requirements for greater disclosure could promote the accountability of these corporations.

3. Host country programmes

While such measures can be taken unilaterally by a home country or group of home countries, host country programmes are often crucial. The question arises with respect to the Calvo doctrine whether certain minimum rights of subsidiaries can also be protected. Although many host countries would probably regard such a guarantee as circumscribing their sovereign rights it would facilitate the acceptance of the Calvo doctrine by home countries. Conflict is often due as much to vacillations and uncertainties of policy as to policy content. Many multinational corporations are not necessarily deterred by attempts to guide or even limit their activities. This is demonstrated by the keen interest expressed by multinational corporations in activity in countries in which machinery for the screening or review of foreign investment has been established, precisely because an important source of uncertainty has been removed. Even in cases in which nationalization has taken place, there may still be room for a contribution by multinational corporations in designated areas. Furthermore, the presence of multinational corporations in a number of socialist countries demonstrates the possibility of mutually beneficial arrangements even in centrally planned economies.

The precise relationship between the multinational corporation and the host country must therefore be defined by the host country itself. While each country should formulate its own policy, there is a general need for a national co-ordinating and reviewing body. These functions are often widely scattered among various ministries. Few ministries are equipped to deal with the whole range of problems that may arise, or are in a position to play a central role in developing a consistent set of policies. A co-ordinating body can gradually develop a nucleus of people who are capable of understanding the operations of the multinational corporations and of conducting negotiations with them.

In countries where some form of participation in the decision-making of multinational corporations is aimed at, the exercise of this role through a development corporation may facilitate co-ordination and minimize the strain on domestic managerial capacity. This arrangement has the advantage of working from the inside so that cumbersome procedures can be avoided. At the same time, it may be more flexible than rules of thumb such as minimum requirements for domestic voting stock and management personnel.

It must be remembered that although a host country has the right to be as strict as it considers appropriate when a multinational corporation operates in its territory, it cannot force a multinational corporation to locate its activities there. The key consideration is that there are often other countries which are eager to offer more attractive conditions. Indeed, in a number of countries, especially those with a federal form of government, various local and provincial authorities outbid one another.

4. Regional programmes

In order to avoid unwarranted competition, the harmonization of national policy measures, such as investment incentives and review procedures, has been attempted at the regional level. Such efforts will also strengthen the national machinery for dealing with multinational corporations by pooling resources and increasing bargaining power for the group as a whole, as has been demonstrated by the Andean group of countries.

5. International programmes

No matter how wisely the host and home countries deal with the multinational corporations, and how socially responsive the behaviour of these corporations may be, tensions and conflicts will inevitably arise and international machinery and procedures must be devised for dealing with them.

(i) As a minimum, there should be a proper international forum in which views can be aired and problems discussed. The Economic and Social Council, aided by a committee under it, could assume the main function, drawing on the findings of other more specialized bodies on particular aspects. The objective of the forum would not be to adjudicate but to gather and publicize facts and, through public opinion, serve as a deterrent to abuses. It could also be instrumental in developing policies and programmes for further action.

(ii) Although much has been published on multinational corporations in recent years, proper and precise information about their operations remains scarce. The lack of information, especially of a non-conventional nature, impedes the intelligent formulation of policies. The United Nations Secretariat can serve as a centre for collecting and disseminating information which ought to be a matter of public knowledge and which would accurately reflect the phenomenon and operations of the multinational corporations. Such an activity will be especially necessary if the United Nations is to serve as a forum for purposes beyond general debate. It will also be useful in assisting national and regional efforts to monitor such practices of multinational corporations as transfer pricing.

(iii) Technical co-operation with countries and regional organizations need not be limited to the supply of information. It can cover all areas of activity pertaining to multinational corporations. As a minimum, the review and appraisal of the operations of multinational corporations and of policies towards them can be part of the broader exercise connected with the International Development Strategy for the Second Development Decade. Technical co-operation can also enhance the bargaining power of the developing host countries by providing expertise in the engineering, economic, commercial and legal fields. More specifically, existing arrangements with the multinational corporations can be analysed to identify deficiencies and potential areas of dispute. A corps of multidisciplinary advisers could be organized so that technical assistance in the review of multinational corporation activities and possibly negotiations with them could be put into operation with a maximum of expertise and a minimum of delay. These technical co-operation activities should be backed up by more fundamental research and case studies on a continuing basis within the United Nations. More generally, technical assistance should serve to promote alternative channels to the transfer of technology by multinational corporations.

(iv) International efforts can also be launched for the harmonization of national policies. A particularly urgent area is that of the taxation of profits of affiliates, which is also related to tax evasion and double taxation. Another urgent area is the harmonization of incentive measures for foreign investment. Although country variations cannot be altogether eliminated, some definition of the rules of the game and of procedures for negotiation is possible. A further area for harmonization is anti-monopoly legislation. Here again, current efforts by regional organizations should serve as a forerunner of broader international efforts. Lastly, the harmonization of environmental regulations would guard against the abuse of such regulations as an instrument for restricting trade.

(v) The various rules of conduct can, in due course, be gathered together and codified. This is implicit in proposals such as that for the establishment of the International Trade Organization (ITO) or of a GATT for international investment. Although such far-reaching proposals may not be ripe for immediate action, the possibilities for similar, perhaps more limited, types of arrangement can be explored.

Less ambitiously, a broad international code of conduct in respect of multinational corporations could be negotiated. Although such a code is unlikely to be enforceable without the ITO or GATT type of organization, the discussions leading to it could serve as an educational process. Such a code could also serve as a guide to the review and appraisal of the activities of host and home countries as well as of the multinational corporations.

(vi) On a more limited but still international scale, multinational corporations could be registered with an international organization under the auspices of the United Nations. A set of qualifying criteria, such as "multinationality" of ownership and management, and certain duties and obligations, such as minimum disclosures and periodic reports, could be specified. The main advantage of international registration to the multinational corporation would be good name and publicity, but registration could also entail certain defined privileges, such as access to procedures for complaint against mistreatment.

A more far-reaching proposal is that for the negotiation of a treaty or a law for the establishment of "International Corporations". The Agreement establishing Interim Arrangements for a Global Commercial Communications Satellite System is an example of such an instrument. The proposed European Company Law, which is independent of national legislation, is an indication of possibilities at the regional level. The proposed international sea-bed authority points to the necessity of supranational organization in some areas. The proposal for the establishment of a legal framework for International Corporations, in various forms, thus deserves further study.

(vii) So long as international authority is lacking, there can be virtually no appropriate machinery for the settlement of disputes. More use, therefore, may be made of voluntary conciliation or arbitration procedures. While a number of governments may be unwilling to submit themselves to arbitration, some may find it convenient. Pre-arrangements may therefore be made for resort to such procedures. A more effective way of dealing with disputes, however, would be through prevention, by means such as those outlined earlier.

In conclusion, the adoption of Economic and Social Council resolution 1721 (LIII) on multinational corporations needs to be followed by the charting of a programme of action for the United Nations. Although opinions may differ concerning some far-reaching proposals, there is hardly any doubt that consensus is possible on many points. Some proposals, indeed, can be implemented immediately, while others will require further study to prepare the ground for more difficult negotiations in the future.

ANNEXES

Annex I

EXCERPTS FROM RECENT RESOLUTIONS OF UNITED NATIONS BODIES RELEVANT TO THE ISSUE OF MULTINATIONAL CORPORATIONS

1. Economic and Social Council resolution 1721 (LIII). The impact of multinational corporations on the development process and on international relations.

"The Economic and Social Council,

"Recalling that, according to the Charter of the United Nations, the creation of conditions of stability and well-being is necessary for peaceful and friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples,

"Recognizing the growing interdependence of economic and social development in the various parts of the world,

"Aware that economic and social conditions are continually undergoing changes which require regular scrutiny to ensure unimpeded and equitable progress towards the attainment of an integrated world economy within the framework of the International Development Strategy for the Second United Nations Development Decade,

"Taking note of the statement in the World Economic Survey, 1971 which says, with reference to the multinational corporations, that 'while these corporations are frequently effective agents for the transfer of technology as well as capital to developing countries, their role is sometimes viewed with awe, since their size and power surpass the host country's entire economy. The international community has yet to formulate a positive policy and establish effective machinery for dealing with the issues raised by the activities of these corporations',

"Noting also the resolution adopted at the fifty-sixth session of the International Labour Conference, concerning the social consequences of the activities of multinational corporations and the convening by the Governing Body of the International Labour Office of a meeting concerning the relationship between multinational undertakings and social policy,

"Noting further that, in resolution 73 (III) on restrictive business practices adopted at the third session of the United Nations Conference on Trade and Development, considering the possible adverse impact of restrictive business practices, including among others those resulting from the increased activities of multinational enterprises, on the trade and development of developing countries, the Conference decided that an Ad Hoc Group of Experts on Restrictive Business Practices should be set up to make a further study of restrictive business practices followed by enterprises and corporations which have already been identified and which are adversely affecting the trade and development of the developing countries, including among others such practices which may stem from cartel activities, business restrictions practised by enterprises and multinational corporations, export prohibitions, agreements on market distribution and allocation, the typing of the supply inputs including raw materials and components, restrictions specified in contracts for the transfer of technology, arbitrary transfer pricing between the parent company and its affiliates, and monopoly practices,

"1. Requests the Secretary-General, in consultation with Governments, to appoint from the public and private sectors and on a broad geographical basis a study group of eminent persons intimately acquainted with international economic, trade and social problems and related international relations, to study the role of multinational corporations and their impact on the process of development, especially that of the developing countries, and also their implications for international relations, to formulate conclusions which may possibly be used by Governments in making their sovereign decisions regarding national policy in this respect, and to submit recommendations for appropriate international action, the study group to consist of not less than 14 nor more than 20 persons;

"2. Recommends that the study group appointed by the Secretary-General be informed of the conclusions of the Ad Hoc Group of Experts on Restrictive Business Practices established by the United Nations Conference on Trade and Development at its third session, and the comments on them of the Trade and Development Board's Committee on Manufactures, so that, among the various aspects of the problem, the important one referred to the Ad Hoc Group of Experts can be taken into account in the global study of multinational corporations envisaged in paragraph 1 above;

"3. Recommends further that the study group take advantage of and take into account research being carried out in this field by other international organizations, particularly that of the Governing Body of the International Labour Office as a result of the resolution concerning the social consequences of the activities of multinational corporations adopted at the fifty-sixth session of the International Labour Conference;

"4. Further requests the Secretary-General to support the report of the study group, together with his own comments and recommendations, to the Economic and Social Council at its fifty-seventh session at the latest and to inform the Council at its fifty-fifth session of the progress made in the implementation of the present resolution."

2. General Assembly resolution 2626 (XXV). International Development Strategy for the Second United Nations Development Decade. Adopted by the General Assembly on 24 October 1970.

"(50) Developing countries will adopt appropriate measures for inviting, stimulating and making effective use of foreign private capital, taking into account the areas in which such capital should be sought and bearing in mind the importance for its attraction of conditions conducive to sustained investment. Developed countries, on their part, will consider adopting further measures to encourage the flow of private capital to developing countries. Foreign private investment in developing countries should be undertaken in a manner consistent with the development objectives and priorities established in their national plans. Foreign private investors in developing countries should endeavour to provide for an increase in the local share in management and administration, employment and training of local labour, including personnel at the managerial and technical levels, participation of local capital and reinvestment of profits. Efforts will be made to foster better understanding of the rights and obligations of both host and capital-exporting countries, as well as of individual investors."

3. United Nations Conference on Trade and Development resolution 56 (III). Foreign private investment in its relationship to development. Adopted on 19 May 1972.

"1. Affirms the sovereign right of developing countries to take the necessary measures to ensure that foreign capital operates in accordance with the national development needs of the countries concerned, including measures to limit the repatriation of profits;

"2. Expresses its concern not only at the total amount of the financial outflow brought about by private foreign investment but also at its excessive utilization of local financial resources as well as the effects of certain marketing contracts among foreign companies that disrupt competition in the domestic markets, and their possible effects on the economic development of the developing countries;

"3. Recognizes that private foreign investment, subject to national decisions and priorities, must facilitate the mobilization of internal resources, generate inflows and avoid outflows of foreign reserves, incorporate adequate technology, and enhance savings and national investment;

"4. Urges developed countries to take the necessary steps to reverse the tendency for an outflow of capital from developing countries, by fiscal or other appropriate measures, such as tax exemption of reinvestments of profits and other earnings accruing to private capital investments."

4. United Nations Conference on Trade and Development resolution 73 (III). Restrictive business practices. Adopted on 19 May 1972.

"1. Recommends that:

"(a) Every effort should be made with the view to alleviating and, where possible eliminating, restrictive business practices adversely affecting the trade and development of developing countries;

"(b) Co-operation among developed and developing countries through an exchange of information and consultations and other means could contribute to the alleviation and, where possible, elimination of restrictive business practices adversely affecting both the developed and developing countries;

"(c) Attention should be paid to the possibility of drawing up guidelines for the consideration of Governments of developed and developing countries regarding restrictive business practices adversely affecting developing countries;

"2. Calls upon the UNCTAD secretariat to pursue further its studies in this field and to give urgent consideration to formulating the elements of a model law or laws for developing countries in regard to restrictive business practices;

"3. Further calls upon all member countries in particular the developed countries and competent international organizations, such as the World Intellectual Property Organization and the International Chamber of Commerce, to extend their fullest co-operation to the UNCTAD secretariat in this regard;

"4. Decides to establish an Ad Hoc Group of Experts on Restrictive Business Practices consisting of an adequate number of governmental and non-governmental experts to be nominated by the Secretary-General of UNCTAD after consultations with Governments. This Expert Group will be responsible to the Committee on Manufactures, to which it shall submit its report as soon as possible;

"5. The terms of reference of the Ad Hoc Group of Experts shall include the following, bearing in mind that the work shall be carried out in the context of liberalization and expansion of trade in manufactures and semi-manufactures of interest to developing countries;

"(a) The identification of all restrictive business practices including among others those resulting from activities of multinational corporations and enterprises which adversely affect the trade and development of developing countries with a view to submitting recommendations to the Committee on Manufactures for alleviating and, where possible, eliminating, such practices;

"(b) Further study of restrictive business practices followed by enterprises and corporations, which have already been identified, and which are adversely affecting the trade and development of developing countries, including among others such practices which may stem from: cartel activities; business restrictions practised by enterprises and multinational corporations; export prohibitions; agreements on market distribution and allocation; the tying of the supply of inputs including raw materials and components; restrictions specified in contracts for the transfer of technology, arbitrary transfer pricing between the parent company and its affiliates; monopoly practices;

"(c) In addition to the practices already referred to in the present resolution in carrying out its studies and submitting its recommendations to the Committee on Manufactures, more attention than in the past should be given to such practices, among others, applied by enterprises and corporations and adversely affecting the trade and development of the developing countries, as those in relation to licensing arrangements and related agreements referring to the use of patents and trade-marks; market sharing; pricing policy and participation of firms of developing countries in industrial projects of multinational corporations;

"(d) In carrying out its studies and submitting its recommendations to the Committee on Manufactures, the Group of Experts shall give special consideration to the position of the least developed among the developing countries;

"(e) It shall examine the possibility of drawing up guidelines for the consideration of Governments of developed and developing countries regarding restrictive business practices adversely affecting developing countries;

"(f) It shall take fully into account those studies which have been and are being carried out by the other international organizations of relevance to work in this area, and shall work in close co-operation with them;

"6. Requests the Committee on Manufactures to consider the Expert Group's report and recommend appropriate remedial action on restrictive business practices;

5. United Nations Conference on Trade and Development resolution 39 (III). Transfer of technology. Adopted on 16 May 1972.

"3. Invites the developing countries to establish institutions, if they do not have them, for the specific purpose of dealing with the whole range of complex questions connected with the transfer of technology from developed to developing countries, and takes note of the wishes of the developing countries, that these institutions should inter alia:

"(a) Be responsible for the registration, deposit, review and approval of agreements involving transfer of technology in the public and private sectors;

"(b) Undertake or assist in the evaluation, negotiation or renegotiation of contracts involving the transfer of technology;

"(c) Assist domestic enterprises in finding alternative potential suppliers of technology in accordance with the priorities of national developing planning;

"(d) Make arrangements for the training of personnel to man institutions concerned with the transfer of technology;

"4. Invites the developing countries to take the specific measures they deem necessary to promote an accelerated transfer of adequate technology to them under fair and reasonable terms and conditions;

"5. Recommends that developed market-economy countries facilitate an accelerated transfer of technology on favourable terms to developing countries, inter alia, by:

"(a) Providing capital and technical assistance and developing scientific and technological co-operation;

"(b) Endeavouring to provide possible incentives to their enterprises to facilitate an accelerated transfer of their patented and non-patented technology to developing countries on fair and reasonable terms and conditions and by assisting these countries in using effectively imported techniques and equipment;

"(c) Assisting developing countries to absorb and disseminate imported technologies through the provision of necessary information and technical assistance, such as training in planning and management of enterprises and in marketing, as well as other forms of scientific and technological co-operation;

"(d) Endeavouring to provide their enterprises and their subsidiaries located in developing countries with possible incentives to employ wherever possible local labour, experts and technicians as well as to utilize local raw materials, to transfer specifications and technological processes used in production to local enterprises or competent organizations, and also to contribute to the development of know-how and expertise by training staff in the developing countries;

"(e) Designating institutions able to provide information to developing countries concerning the range of technologies available;

"(f) Assisting through their over-all co-operation programmes in the application of technology and in its adaptation to the production structures and economic and social requirements of developing countries at their request;

"(g) Taking steps to encourage and promote the transfer of the results of the work of research institutes and universities in the developed countries to corresponding institutions in developing countries;

"(h) Participating actively in the identification of restrictive business practices affecting the transfer of technology to developing countries with a view to alleviating and, where possible, eliminating these practices in accordance with paragraph 37 of the International Development Strategy for the Second United Nations Development Decade;

"6. Recommends that the socialist countries of Eastern Europe, in accordance with their economic and social systems, undertake to facilitate the accelerated transfer of technology on favourable terms to developing countries inter alia through agreements on trade, economic and scientific and technical co-operation;"

"11. Recommends that the international community, in recognition of the special position of the least developed among the developing countries should:

"(a) Assist such countries, for instance by the establishment and/or consolidation of information centres and applied technology institutes;

"(b) Furnish on easier terms the specialized institutions of such countries with the results of research relevant to their economic development;

"(c) Give special consideration to the terms, conditions and costs of transfer of technology to such countries;"

6. General Assembly resolution 3016 (XXVII). Permanent sovereignty over natural resources of developing countries. Adopted on 18 December 1972.

"1. Reaffirms the right of States to permanent sovereignty over all their natural resources, on land within their international boundaries as well as those found in the sea-bed and the subsoil thereof within their national jurisdiction and in the superjacent waters;

"2. Further reaffirms its resolution 2625 (XXV) of 24 October 1970, containing the Declaration on Principles of International Law concerning Friendly Relations and Co-operation among States in accordance with the Charter of the United Nations, which proclaims that no State may use or encourage the use of economic, political or any other type of measures to coerce another State in order to obtain from it the subordination of the exercise of its sovereign rights and to secure from it advantages of any kind;

"3. Declares that actions, measures or legislative regulations by States aimed at coercing, directly or indirectly, other States engaged in the change of their internal structure or in the exercise of their sovereign rights over their natural resources, both on land and in their coastal waters, are in violation of the Charter and of the Declaration contained in resolution 2625 (XXV) and contradict the targets, objectives and policy measures of the International Development Strategy for the Second United Nations Development Decade;

"4. Calls upon Governments to continue their efforts aimed at the implementation of the principles and recommendations contained in the aforementioned resolutions of the General Assembly and, in particular, of the principles enunciated in paragraphs 1 to 3 above;

"5. Takes note of the report of the Secretary-General on permanent sovereignty over natural resources and requests him to supplement it with a further detailed study on recent developments, taking into account the right of States to exercise permanent sovereignty over their natural resources, as well as the factors impeding States from exercising this right;

"6. Requests the Economic and Social Council to accord high priority, at its fifty-fourth session, to the item entitled 'Permanent sovereignty over natural resources of developing countries', together with the report of the Secretary-General and the present resolution, and to report to the General Assembly at its twenty-eighth session."

7. Economic and Social Council resolution 1737 (LIV). Permanent sovereignty over natural resources of developing countries. Adopted on 4 May 1973.

"1. Reaffirms the right of States to permanent sovereignty over all their natural resources, on land within their international boundaries, as well as those of the sea-bed and the subsoil thereof within their national jurisdiction and in the superjacent waters;

"2. Emphasizes that both the exploration and the exploitation of such natural resources shall be subject in each country to national laws and regulations;

"3. Declares that any act, measure or legislative provision which one State may apply against another for the purpose of suppressing its inalienable right to the exercise of its full sovereignty over its natural resources, both on land and in coastal waters, or of using coercion to obtain advantages of any other kind, is a flagrant violation of the Charter of the United Nations, contradicts the principles adopted by the General Assembly in its resolutions 2625 (XXV) and 3016 (XXVII) and obstructs the attainment of the goals and objectives of the International Development Strategy for the Second United Nations Development Decade, and that to persist therein could constitute a threat to international peace and security;

"4. Recognizes that one of the most effective ways in which the developing countries can protect their natural resources is to promote or strengthen machinery for co-operation among them having as its main purpose to concert pricing policies, to improve conditions of access to markets, to co-ordinate production policies and, thus, to guarantee the full exercise of sovereignty by developing countries over their natural resources;

"5. Urges the international financial organizations and the United Nations Development Programme to provide, in accordance with the priorities established in national development plans, all possible financial and technical assistance to developing countries at their request or for the purpose of establishing, strengthening and supporting, as appropriate, national institutions to ensure the full utilization and control of their natural resources:

"6. Requests the Secretary-General to complete the study of the political economic, social and legal aspects of the principle of permanent sovereignty over natural resources referred to in Council resolution 1673 D (LII) and to include therein the aspects of the permanent sovereignty of States over their natural resources of the sea-bed and the subsoil thereof within the limits of national jurisdiction and in the superjacent waters;

"7. Further requests the Secretary-General to submit to the General Assembly at its twenty-eighth session, through the Economic and Social Council, the study referred to in paragraph 6 above."

8. United Nations Conference on Trade and Development resolution 75 (III). Export promotion. Adopted on 19 May 1972.

"The United Nations Conference on Trade and Development,

"Bearing in mind the International Development Strategy for the Second United Nations Development Decade and, in particular, paragraph 36 thereof,

"Recognizing that promotion of the exports of developing countries is a necessary complement to removal of the external obstacles to those countries' exports,

"Noting with appreciation that the large-scale technical assistance project financed by the United Nations Development Programme for training and advisory services to preference-receiving countries in the implementation of the generalized system of preferences has already become operational,

"1. Recognizes that developing countries should actively continue and intensify the implementation of appropriate measures for export promotion:

"2. Urges developed countries, due consideration being given to measures undertaken for the reduction and, if possible, elimination of tariff and non-tariff barriers to the exports of developing countries, to take measures to promote the exports of developing countries through the provision of technical and financial assistance to developing countries for the purpose of:

"(a) Studies and research including exchange of commercial information on a continuous basis on the export prospects for products from developing countries;

"(b) Standardization, packaging, design and quality control of products from developing countries;

"(c) Organizing international trade fairs with a view to securing increased export opportunities for products from developing countries;

"(d) Formulating and implementing programmes for training executives and experts at all levels in the field of trade promotion;

"3. Requests the appropriate international organizations to provide technical and financial assistance to developing countries in the field of export promotion;

"4. Urges developed countries to consider measures to facilitate exports from developing countries through appropriate means, such as, where possible, the establishment of national centres in developed countries for the promotion of imports from developing countries or other import facilitation measures;

"5. Recognizes with appreciation the financial and other support given by the developed countries to the UNCTAD/GATT International Trade Centre and recommends that such support should, if possible, be increased;

"6. Requests developed countries and the international organizations concerned to continue to lend their technical and financial support to the work programmes of regional, subregional and national trade promotion centres in order to enable them, in co-operation with other agencies, to collect and disseminate commercial information on a continuing basis, and to supplement the export efforts of developing countries to promote trade with developed countries and among themselves;

"7. Requests developed countries and the international organizations concerned to assist, where necessary, in creating or strengthening national trade promotion centres and associations thereof in the developing countries in order to achieve the objectives stated in paragraph 6 above;

"8. Recommends to developing countries to co-operate among themselves in order to intensify the export promotion of their products in the markets of developing and developed countries;

"9. Recommends regional trade promotion centres to assist developing countries in taking advantage of the trade opportunities resulting from regional and subregional co-operation plans and of the export possibilities in such cases where aid is provided in untied form;

"10. Requests the Secretary-General of UNCTAD together with the Director-General of GATT to continue their efforts to ensure that the International Trade Centre is fully equipped to enable it, in co-operation with the Food and Agriculture Organization of the United Nations and the United Nations Industrial Development Organization, to pursue effective and co-ordinated programmes of assistance to developing countries in the field of export promotion and to pay particular attention to the problems of the least developed countries;

"11. Urges developed countries to take into account the special market situations prevailing in developing countries and the special needs of developing countries for adopting certain export promotion measures as part of their efforts to achieve diversification and promotion of their exports;

"12. Requests developed countries and international financial organizations, including the regional development banks, recognizing the need for developing countries to improve their export financing facilities, to give active consideration to means to bring about such an improvement."

9. United Nations Conference on Trade and Development resolution 45 (III). Charter of the economic rights and duties of States. Adopted on 18 May 1972.

"1. Decides to establish a working group composed of Government representatives of 31 member States, to draw up the text of a draft charter. The Working Group shall be appointed as soon as possible by the Secretary-General of UNCTAD in consultation with States members of the Conference;

"2. Decides that the Working Group shall use as basic elements in its work:

"(a) The general, special and other principles as approved by the Conference at its first session;

"(b) Any proposals or suggestions on the subject made during the third session of the Conference;

"(c) All documents mentioned above and other relevant resolutions adopted within the framework of the United Nations, particularly the International Development Strategy for the Second Development Decade;

"(d) The principles contained in the Charter of Algiers and the Declaration of Lima;

"3. Further decides that the draft prepared by the Working Group shall be sent to States members of the Conference in order that they can forward their suggestions, it being understood that the Working Group shall reconvene to elaborate the draft charter further in the light of comments and suggestions to be received from Governments of member States;

"4. Recommends to the Trade and Development Board, that it examine, as a matter of priority, at its thirteenth session, the report of the above-mentioned Working Group, and the comments and suggestions made by member States of the Conference and transmit it with its comments to the General Assembly at its twenty-eighth session;

"5. Invites the General Assembly, upon receipt of the above-mentioned report of the Trade and Development Board, and the views expressed by Governments during the consideration of the item in the General Assembly, to decide upon the opportunity and procedure for the drafting and adoption of the charter."

10. Resolution concerning the Social Problems Raised by Multinational Undertakings adopted at the fifty-sixth session of the General Conference of the International Labour Organisation.

"The General Conference of the International Labour Organisation,

"Considering that one of the striking features of economic evolution in recent years is the increasingly rapid development of multinational undertakings and international conglomerates of undertakings,

"Considering that this evolution, while offering certain possibilities, raises new social problems, the extent of which will increase, as regards employment, conditions of work and industrial relations,

"Considering that because of the international character of these social problems the International Labour Organisation is eminently qualified to deal with them,

"Considering that the Sixth Asian Regional Conference of the International Labour Organisation (Tokyo, 1968) agreed to recommend that the Governing Body of the ILO should consider at one of its forthcoming sessions the question of labour-management relations, including multinational undertakings,

"Considering that the Ninth Conference of American States Members of the ILO (Caracas, 1970) invited the Governing Body of the ILO to place on the agenda of an early session of the Inter-American Advisory Committee of the ILO the question of the effects of the policies of multinational corporations on working and living conditions in the countries where they operate,

"Considering the resolution (No. 73) on multinational corporations adopted by the Metal Trades Committee at its Ninth Session (Geneva, January 1971),

"Noting that the Governing Body of the ILO decided at its 182nd (March 1971) Session to provide for an appropriation for the organization of a technical meeting on the possibilities of action by the ILO regarding the relationships between multinational undertakings and social policy,

"1. Notes with satisfaction the decision of the Governing Body of the ILO to consider holding a technical meeting on the possibilities of action by the ILO regarding the relationship between multinational undertakings and social policy, to be attended by a large number of employers' and workers' representatives;

"2. Expresses the wish that this meeting should be held as soon as possible;

"3. Requests the Governing Body to decide, in the light of the conclusions reached at this meeting, what action the ILO should take on the question, including its examination by the International Labour Conference at a future session."

Note: A number of reports of the Secretary-General are also relevant to the issue of multinational corporations. See, for instance, The impact of multinational corporations on the development process and on international relations: Progress report of the Secretary-General (E/5334 and E/5381); The International Development Strategy. First over-all review and appraisal of issues and policies, report of the Secretary-General (United Nations publication, Sales No.: E.73.II.A.6), Direct investment, pp. 67-69; World Economic Survey, 1971. Current Economic Developments (United Nations publication, Sales No.: E.72.II.C.2), Capital movements, p. 10; Promotion of private foreign investment in developing countries: report of the Secretary-General (E/5114), paragraphs 15-19; Permanent sovereignty over natural resources: report of the Secretary-General (E/5170). See also the summary records of the discussions on multinational corporations at the fifty-third and fifty-fourth sessions of ECOSOC (E/SR.1831-1834, 1836; E/AC.6/SR.585-587; E/AC.6/SR.630-632; E/SR.1858).

SELECTED DEFINITIONS

Multinational Corporation

"A multinational company is any firm which performs its main operations, either manufacture or the provision of service, in at least two countries." a/

"The concept of the international or multinational producing enterprise (MPE)... /is defined/ simply as an enterprise which owns or controls producing facilities (i.e. factories, mines, oil refineries, distribution outlets, offices etc. in more than one country." b/

A "multinational enterprise" is "a parent company that controls a large cluster of corporations of various nationalities. The corporations that make up each cluster appear to have access to a common pool of human and financial resources and seem responsive to elements of a common strategy. Size is important as well; a cluster of this sort with less than $100 million in sales rarely merits much attention. Moreover, the nature of the group's activities outside its home country is relevant; mere exporters, even exporters with well-established sales subsidiaries abroad, are unlikely to draw much attention, and mere licensers of technology are just as rarely mentioned. Finally, the enterprises involved generally have a certain amount of geographical spread; a parent with a stake in only a country or two outside its home base is not often found on the list /of multinational enterprises/." c/

In "multinational firms", "international interest and expertise are located throughout the firm, but top corporate managers are still home country nationals and initially lack international experience and expertise. There is, nonetheless, an effort to make decisions less nationally biased. Associated foreign firms are increasingly managed by local managers, and a loss of control is experienced by headquarters, particularly if local equity participation is permitted. As the firm grows locally, political pressures develop to compel greater control and, hence, subsidiary autonomy. But over time, with the growth of international competence in corporate headquarters, the advantages inherent in world-wide integration are seen and the decentralization policy is reversed. This reversal causes instability within the firm; either the firm becomes transnational or it is forced back to a decentralized system." d/

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a/ Michael Z. Brooke, and H. Lee Remmers, The Strategy of Multinational Enterprise: Organization and Finance (London, 1970), p. 5.

b/ John H. Dunning, ed., The Multinational Enterprise (London, 1971), p. 16.

c/ Raymond Vernon, Sovereignty at Bay, (New York, 1971), p. 4.

d/ Richard D. Robinson, "Beyond the Multinational Corporation" (unpublished manuscript, 1973), p. 27.

"The multinational enterprise will be defined as the embodiment of foreign direct investment by a single business enterprise which straddles several economies (a minimum of four or five) and divides its global activities between different countries with a view to realizing over-all corporate objectives." e/

A "multinational enterprise" can have orientations which "may be described as ethnocentric (or home country oriented) polycentric (or host country oriented) and geocentric (or world oriented). While they never appear in pure form they are clearly distinguishable." f/

"The first criterion /for a multinational company/ is that it should operate in many countries. The second one is that is should carry on research and development and manufacturing in those countries - so that it contributes to the GNP of the foreign country in which it operates. The third one is that management must be multinational. And the fourth one is that the stock ownership must be multinational." g/

"The multinational enterprise is not acting like an agglomeration of domestic companies, loosely held by equity shares, but like a closely-controlled single enterprise, located in markets separated by national boundaries and operating under several national governments. Its essential feature is 'unity in diversity'." h/

"Multinational corporations (MNC) - The worldwide organizations consisting of the U.S. reporters, on a fully consolidated domestic enterprise basis, and all their foreign affiliates. ...Foreign affiliate - Any direct investment entity abroad, no matter what its legal form (corporation, branch, partnership, sole proprietorship, joint venture, etc.) owned by a United States person." i/

International Corporation

In "international firms", "interest and expertise are in an international division, but with functional expertise remaining in the domestic divisions and domestically-oriented staff departments. Decisions are less biased in terms of the type of foreign market entry strategy that will be considered, but are still heavily biased nationally. Highly centralized control is maintained and key positions overseas are filled with home country nationals." j/

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e/ Government of Canada, Foreign Direct Investment in Canada (Ottawa, 1972), p. 51.

f/ Howard V. Perlmutter, "The Tortuous Evolution of the Multinational Corporation", Columbia Journal of World Business, Vol. 4, 1969, p. 11.

g/ Jacques Maisonrouge, "Proceedings of the Conference on the Multinational Corporation in the State Department", Washington, D.C., Department of State, 14 February 1969. Mimeograph, pp. 17-18.

h/ J.N. Behrman, Some Patterns in the Rise of the Multinational Enterprise (Chapel Hill, 1969), p. 62.

i/ United States Department of Commerce, Special Survey of United States Multinational Companies, 1970 (Springfield, 1972), pp. 15-16.

j/ Richard D. Robinson, op. cit., p. 27.

"A national corporation operating extra-nationally, insisting on the primacy of the methods it uses at home, and even of the laws of the home country." k/

"The national firm with foreign operations knows where it belongs. First and foremost it is a citizen of a particular country. Foreign operations are small in the total volume of things. There may be an international division, rather than foreign operations in every division. The company is not speculating when it holds the currency of the nation claiming sovereignty over the parent corporation. Assuming it is an American corporation, its securities are issued in dollars, and its accounts kept in that currency. It may have substantial foreign ownership interests, but it feels at home only in one country, and substantially alien everywhere else." l/

"An international company... /is/ a large (domestic) corporation which has a substantial overseas investment in operating subsidiaries or affiliates - sometimes including licensees. A sizeable export volume out of total sales would not indicate that a company was 'international'. Nor does size make a company 'international'." m/

"An 'international company' may be defined as one, with foreign content of 25 per cent or more; 'foreign content' is defined as the proportion of sales, investment, production or employment abroad." n/

"The international corporation has no country to which it owes more loyalty than any other, nor any country where it feels completely at home. It equalizes the returns on its invested capital in every country, after adjustment for risk." o/

Transnational Corporation

In "transnational firms", "which are owned and managed multinationally, decision-making is centralized but free of national bias except as legally imposed. The firm loses loyalty to a single nation. Growth is hence unimpeded by non-economic considerations except those legally imposed." p/

"An internationally owned and/or (financially) controlled enterprise /is a firm/ the capital of which is owned or controlled by economic agents of more than one nationality." q/

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k/ Task Force on the Structure of Canadian Industry, Foreign Ownership and the Structure of Canadian Industry (Ottawa, 1968), p. 33.

l/ Charles P. Kindleberger, American Business Abroad (New Haven, 1969), p.180.

m/ J. N. Behrman, "Multinational Corporations, Transnational Interests and National Sovereignty", Columbia Journal of World Business, Vol. 4 (March, 1969), p.2.

n/ Sidney E. Rolfe, "The International Corporation in Perspective" in Sidney E. Rolfe and Walter Damm, eds., The Multinational Corporation in the World Economy (New York, 1970), p. 17.

o/ Kindleberger, op. cit., p. 182.

p/ Robinson, op. cit., p. 27.

q/ Dunning, op. cit., p. 17.

"Multinational corporations see the world as their oyster and judge their performance on a world-wide basis. They look to their global market position." r/

Supranational Firms

In "supranational firms", "decision-making is free structurally, psychologicall and legally to allocate resources on a global basis in conformance with corporate goals insofar as they do not conflict with the international political regime controlling the corporation." s/

Global Corporation

A corporation "may be global, with such pervasive operations that it is beyond the effective reach of the national policies of any country and, in the absence of supranational policy, free to some extend to make decisions in the interest of corporate efficiency alone." t/

Cosmocorp

"... world corporations /which/ should become quite literally citizens of the world. What this implies is the establishment by treaty of an international companies law, administered by a supranational body, including representatives drawn from various countries, who would not only exercise normal domiciliary supervision but would also enforce antimonopoly laws and administer guarantees with regard to uncompensated expropriation." u/

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r/ S. Hymer and R. Rowthorn, "Multinational Corporations and International Oligopoly" in C. P. Kindleberger, ed., The International Corporation (Cambridge) 1970), p. 58.

s/ Robinson, op. cit., p. 27.

t/ Task Force, on the Structure of Canadian Industry, op. cit., p. 33.

u/ George W. Ball, "Cosmocorp: The Importance of Being Stateless", in Courtney C. Brown, ed., World Business (New York, 1970), p. 337.

Annex III

STATISTICAL TABLES

List of tables

List of tables (continued)

Table 1. The 650 largest industrial corporations[a] of the market economies, by country and by size (sales in millions of dollars), 1971

Country[b]	Number of corporations with sales[c] of					
	Over 10,000	5,000 - 10,000	1,000 - 4,999	500 - 999	300 - 499	Total
United States	3	9	115	115	116	358
Japan	-	-	16	31	27	74
United Kingdom	-	1	14	22	24	61
Federal Republic of Germany	-	-	18	10	17	45
France	-	-	13	9	10	32
Canada	-	-	2	7	8	17
Sweden	-	-	2	6	5	13
Switzerland	-	-	4	2	2	8
Italy	-	-	4	2	-	6
Netherlands	-	1	1	2	2	6
Belgium	-	-	1	2	2	5
Australia	-	-	1	1	2	4
South Africa	-	-	-	1	2	3
Spain	-	-	-	-	3	3
Argentina	-	-	-	1	1	2
Austria	-	-	-	-	2	2
India	-	-	-	1	1	2
Brazil	-	-	1	-	-	1
Luxembourg	-	-	1	-	-	1
Mexico	-	-	1	-	-	1
Netherlands Antilles	-	-	-	1	-	1
Zaire	-	-	-	-	1	1
Zambia	-	-	-	-	1	1
Netherlands-United Kingdom	1	1	-	-	-	2
United Kingdom-Italy	-	-	1	-	-	1
TOTAL, number of corporations	4	12	195	213	226	650
TOTAL, sales (millions of dollars)	76,131	77,807	382,297	147,703	86,069	773,007

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on the listing in *Fortune*, July and August 1972, of the 500 largest industrial corporations in the United States and the 300 largest industrial corporations outside the United States.

a/ Almost all the corporations included are multinational, according to the definition adopted in the text.

b/ Countries are arranged in descending order of total number of corporations listed.

c/ Sales are based on figures adjusted by *Fortune* and are not necessarily identical with those reported by corporations.

Table 2. Selected multinational manufacturing corporations [a] of market economies: a profile of foreign content [b] of the corporation's total operations and assets

(Number)

Foreign content	Sales	Assets	Production	Earnings	Employment	Total
More than 75 per cent						
United Kingdom.....	2	1	-	3	2	8
Switzerland........	3	-	-	-	3	6
United States......	-	-	2	3	-	5
Sweden.............	3	-	-	-	-	3
Belgium............	2	-	-	-	-	2
Netherlands-United Kingdom...	1	-	-	-	1	2
50 - 74 per cent						
United States......	2	2	1	7	7	19
United Kingdom.....	-	-	-	1	-	1
Federal Republic of Germany..........	4	-	-	-	-	4
Sweden.............	3	-	-	-	-	3
Japan..............	2	-	-	-	2	4
France.............	2	-	-	-	-	2
Italy..............	1	-	-	-	-	1
Netherlands........	-	-	-	-	2	2
Belgium............	1	-	-	-	-	1
Brazil.............	1	-	-	-	-	1
25 - 49 per cent						
United States......	14	5	3	7	11	40
Japan..............	15	-	-	-	1	16
Federal Republic of Germany..........	13	-	-	-	1	14
France.............	8	-	-	-	-	8
United Kingdom.....	-	-	-	2	-	2
Italy..............	2	1	-	-	-	3
Sweden.............	3	-	-	-	-	3
Belgium............	1	-	-	-	-	1
10 - 14 per cent						
United States......	6	4	-	2	1	13
Federal Republic of Germany..........	7	-	-	-	-	7
France.............	6	-	-	-	-	6
Japan..............	2	-	-	-	-	2
United Kingdom.....	-	-	-	-	-	-

Table 2. Selected multinational manufacturing corporations a/ of market economies: a profile of foreign content b/ of the corporation's total operations and assets (continued)

(Number)

	Sales	Assets	Production	Earnings	Employment	Total
Less than 10 per cent						
United States......	1	5	2	-	2	10
Federal Republic of Germany..........	3	-	-	-	-	3
Sweden.............	1	-	-	-	-	1
TOTAL						193

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on table 1; Belgium's 500 largest companies (Brussels, 1969); Entreprise, No. 878, 6-12 July, 1972; Rolf Jungnickel, "Wie multinational sind die deutschen Unternehmen?" in Wirtschafts dienst, No. 4, 1972; Wilhelm Grotkopp and Ernst Schmacke, Die Grossen 500 (Düsseldorf, 1971); Commerzbank, Auslandsfertigung (Frankfurt, 1971); Bank of Tokyo, The President Directory 1973 (Tokyo, 1972); Financial Times, 30 March 1973; Vision, 15 December 1971; Sveriges 500 Största Företag (Stockholm, 1970); Max Iklé, Die Schweiz als internationaler Bank- und Finanzplatz (Zürich, 1970); Schweizer Bankgesellschaft, Die grössten Unternehmen der Schweiz (1971); Financial Times, 15 May 1973; J.M. Stopford, "The foreign investments of United Kingdom firms", London Graduate School of Business Studies, 1973, (mimeo); Multinational Corporations, Hearings before the Subcommittee on International Trade of the Committee on Finance, United States Senate, 93rd Congress, First Session, February/March 1973; Nicholas K. Bruck and Francis A. Lees, "Foreign content of United States corporate activities", Financial Analyst Journal, September-October 1966; Forbes, 15 May 1973; Chemical and Engineering News, 20 December 1971; Moody's Industrial Manual, 1973; Sidney E. Rolfe, The International Corporation (Paris, 1969); Charles Levinson, Capital, Inflation and the Multinationals (London, 1971); Yearbook of International Organizations, 12th ed., 1968-1969, and 13th ed., 1970-1971; Institut für Marxistische Studien und Forschung, Internationale Konzerne und Arbeiterklasse (Frankfurt, 1971); Heinz Aszkenazy, Les grandes sociétés européennes (Brussels, 1971); Mirovaja ekonomika i mezdunarodnyje otnosenija, No. 9, 1970.

a/ Selected from the 650 largest industrial corporations of table 1, for which information on at least one measure of foreign content could be obtained. When information could be obtained on more than one measure, the highest figure was used to classify the corporation according to its percentage of foreign content.

b/ "Foreign content" refers to the ratio of the value of foreign sales, assets, production, earnings, or number of foreign employees with respect to the totals.

Table 3. Foreign content of operations and assets of manufacturing corporations of market economies with sales of over $1 billion, 1971

Rank[a]	Company	Nationality	Total sales (millions of dollars)	Foreign content as percentage of: Sales[b]	Production	Assets	Earnings	Employment	Number of subsidiary countries[c]
1	General Motors.........	USA	28,264	19[j]	...	15[g]	19[j]	27[e]	21
2	Standard Oil (N.J.)....	USA	18,701	50[j]	81[e]	52[h]	52[j]	...	25
3	Ford Motors............	USA	16,433	26[j]	36[h]	40[h]	24[j]	48[e]	30
4	Royal Dutch/Shell Group	Neth.-UK	12,734	79[j]	...	...	...	70[j]	43
5	General Electric.......	USA	9,429	16[j]	...	15[h]	20[j]	...	32
6	International Business Machines.............	USA	8,274	39[j]	...	27[h]	50[j]	36[e]	80
7	Mobil Oil..............	USA	8,243	45[j]	...	46[h]	51[j]	51[h]	62
8	Chrysler...............	USA	7,999	24[j]	22[e]	31[h]	...	24[e]	26
9	Texaco.................	USA	7,529	40[j]	65[e]	...	25[e]	...	30
10	Unilever...............	Neth.-UK	7,483	80[j]	...	60[h]	...	70[i]	31
11	International Telephone and Telegraph Corp...	USA	7,346	42[j]	60[h]	61[h]	35[j]	72[h]	40
12	Western Electric.......	USA	6,045	...	...	...	...	...	...
13	Gulf Oil...............	USA	5,940	45[j]	75[e]	38[h]	21[j]	...	61
14	British Petroleum......	UK	5,191	88[j]	...	...	...	83[j]	52
15	Philips' Gloeilampenfabrieken............	Neth.	5,189	...	67[h]	53[h]	...	73[i]	29
16	Standard Oil of Calif..	USA	5,143	45[j]	46[j]	9[h]	43[h]	29[h]	26
17	Volkswagenwerk.........	FRG	4,967	60[j]	25[j]	...	...	18[j]	12
18	United States Steel....	USA	4,928	54[e]	...	48[e]	62[e]	70[e]	...
19	Westinghouse Electric..	USA	4,630	...	...	...	...	...	...
20	Nippon Steel...........	Japan	4,088	31[k]	...	...	...	2[k]	5
21	Standard Oil (Ind.) ...	USA	4,054	...	...	16[e]	...	...	24
22	Shell Oil (subsidiary of Royal Dutch/Shell).	USA	3,892	...	...	...	...	...	...
23	E.I. du Pont de Nemours	USA	3,848	18[j]	12[h]	12[g]	...	...	20
24	Siemens................	FRG	3,815	39[j]	17[j]	...	...	23[j]	52
25	ICI (Imperial Chemical Industries)..........	UK	3,717	35[j]	42[h]	25[h]	...	27[j]	46
26	RCA....................	USA	3,711	...	...	...	...	...	18
27	Hitachi................	Japan	3,633	39[k]	...	...	...	...	...
28	Goodyear Tire and Rubber...............	USA	3,602	30[g]	...	22[g]	30[g]	...	22
29	Nestle.................	Switz.	3,541	98[j]	...	90[h]	...	96[h]	15
30	Farbwerke Hoechst......	FRG	3,487	42[j]	17[i]	...	...	...	43

Table 3. Foreign content of operations and assets of manufacturing corporations of market economies with sales of over $1 billion, 1971 (continued)

Rank[a]	Company	Nationality	Total sales (millions of dollars)	Foreign content as percentage of: Sales[b]	Production	Assets	Earnings	Employment	Number of subsidiary countries [c]
31	Daimler-Benz..........	FRG	3,460	44[j]	12[j]	28[j]	...	...	12
32	Ling-Temco-Vought.....	USA	3,359	...	...	...	...	...	...
33	Toyota Motors.........	Japan	3,308	31[k]	...	1[k]	...	11[g]	6
34	Montedison............	Italy	3,270	37[h]	...	...	...	...	14
35	British Steel.........	UK	3,216	3[j]	...	2[j]	...	8[j]	13
36	BASF..................	FRG	3,210	47[j]	17[j]	18[j]	...	...	14
37	Procter and Gamble....	USA	3,178	25[j]	...	16[h]	25[j]	...	24
38	Atlantic Richfield....	USA	3,135	...	...	...	...	...	12
39	Mitsubishi Heavy Industries..........	Japan	3,129	...	...	...	...	...	...
40	Nissan Motor..........	Japan	3,129	28[k]	...	1[k]	...	6[g]	10
41	Continental Oil.......	USA	3,051	...	...	20[d]	...	...	27
42	Boeing................	USA	3,040	...	...	...	...	...	...
43	Union Carbide.........	USA	3,038	29[j]	25[h]	26[h]	22[e]	43[h]	34
44	International Harvester...........	USA	3,016	25[j]	19[h]	26[h]	10[g]	32[e]	20
45	Swift.................	USA	2,996	16[j]	...	...	...	...	...
46	Eastman Kodak.........	USA	2,976	33[k]	20[h]	27[k]	19[j]	40[k]	25
47	Bethlehem Steel.......	USA	2,964	2[e]	...	...	...	...	...
48	Kraftco...............	USA	2,960	...	...	...	...	...	16
49	Fiat..................	Italy	2,943	36[j]	...	43[j]	...	...	25
50	August Thyssen-Hufte..	FRG	2,904	21[j]	...	...	...	...	23
51	Lockheed Aircraft.....	USA	2,852	3[d]	...	...	...	...	10
52	Tenneco...............	USA	2,841	...	...	...	...	...	14
53	British Leyland Motors	UK	2,836	14[j]	...	...	...	12[j]	33
54	Renault...............	France	2,747	41[k]	...	...	...	...	23
55	AEG-Telefunken........	FRG	2,690	29[j]	8[j]	...	...	10[j]	31
56	Matsushita Electric Industrial..........	Japan	2,687	23[k]	...	...	...	1[k]	27
57	Bayer.................	FRG	2,649	54[j]	19[j]	...	...	16[j]	3
58	Greyhound.............	USA	2,616	...	...	...	...	...	...
59	Tokyo Shibaura Electric............	Japan	2,553	13[k]	...	1[k]	...	15[k]	22
60	Firestone Tire and Rubber..............	USA	2,484	...	...	...	26[e]	24[d]	33

Table 3. Foreign content of operations and assets of manufacturing corporations of market economies with sales of over $1 billion, 1971 (continued)

Rank a/	Company	Nationality	Total sales (millions of dollars)	Foreign content as percentage of: Sales b/	Production	Assets	Earnings	Employment	Number of subsidiary countries
61	Litton Industries.....	USA	2,466	17j/	...	...	...	...	13
62	Pechiney Ugine Kuhlmann............	France	2,462	12k/	...	...	...	...	29
63	Occidental Petroleum..	USA	2,400	46j/	...	...	...	...	21
64	Cie Francaise des Petroles............	France	2,395	49k/	...	...	...	...	28
65	Dunlop Pirelli Union..	Italy-UK	2,365	52k/	...	...	87k/	...	28
66	Phillips Petroleum....	USA	2,363	...	42e/	...	...	...	37
67	Akzo..................	Neth.	2,307	84i/	...	...	...	66i/	19
68	General Foods.........	USA	2,282	...	...	...	...	...	15
69	British-American Tobacco.............	UK	2,262	93j/	100l/	82j/	92h/	84j/	54
70	General Electric......	UK	2,218	24j/	10h/	...	...	13j/	36
71	North American Rockwell............	USA	2,211	...	...	...	...	...	...
72	Rhone Poulenc.........	France	2,181	47i/	24h/	34i/	...	...	27
73	Caterpillar Tractor...	USA	2,175	53j/	14h/	25g/	...	17d/	14
74	ENI...................	Italy	2,172	...	...	...	...	18i/	39
75	National Coal Board...	UK	2,159	-	-	-	-	-	-
76	Nippon Kokan..........	Japan	2,122	29k/	...	...	...	1k/	4
77	BHP (Broken Hill Proprietary)........	Australia	2,100	-	-	-	-	-	-
78	Singer................	USA	2,099	37j/	...	54h/	75j/	66h/	30
79	Monsanto..............	USA	2,087	24j/	...	25d/	31j/	71k/	23
80	Continental Can.......	USA	2,082	...	...	...	...	...	11
81	Borden................	USA	2,070	7d/	...	12d/	13d/	...	...
82	McDonnell Douglas.....	USA	2,069	...	...	...	...	...	...
83	Dow Chemical..........	USA	2,053	40j/	25h/	...	45j/	22d/	[illegible]
84	W.R. Grace............	USA	2,049	35j/	34h/	...	39j/	60e/	[illegible]
85	Ruhrkohle.............	FRG	2,043	22j/	...	...	...	...	...
86	United Aircraft.......	USA	2,029	11d/	...	...	...	...	...
87	Rapid American........	USA	1,991	...	...	...	...	...	...
88	Union Oil of Calif....	USA	1,981	...	...	...	...	8d/	...
89	International Paper...	USA	1,970	10i/	...	...	...	...	11
90	Gutehoffnungshütte....	FRG	1,962	38i/	...	...	...	...	[illegible]

Table 3. Foreign content of operations and assets of manufacturing corporations of market economies with sales of over $1 billion, 1971 (continued)

Rank[a]	Company	Nationality	Total sales (millions of dollars)	Foreign content as percentage of: Sales[b]	Production	Assets	Earnings	Employment	Number of subsidiary countries [c]
91	Xerox	USA	1,961	30[j]	...	...	38[j]	38[j]	23
92	Honeywell	USA	1,946	35[k]	...	20[d]	...	24[d]	20
93	Sun Oil	USA	1,939	...	...	...	...	...	21
94	Saint-Gobain-Pont-à Museum	France	1,914	19[k]	...	...	...	...	13
95	American Can	USA	1,897	...	...	...	...	...	24
96	General Dynamics	USA	1,809	...	...	...	...	...	16
97	Ciba-Geigy	Switz.	1,843	98[i]	66[h]	...	...	71[h]	37
98	Krupp-Konzern	FRG	1,843	23[j]	3[j]	...	...	3[j]	15
99	Minnesota Mining and Manufacturing	USA	1,829	36[j]	30[h]	29[h]	29[h]	40[h]	29
100	Beatrice Foods	USA	1,827	4[d]	...	...	5[d]	...	13
101	ELF Group	France	1,825	...	...	...	...	...	...
102	Mannesmann	FRG	1,828	41[j]	11[j]	...	...	12[j]	15
103	R.J. Reynolds Industries	USA	1,816	...	...	...	...	...	...
104	Cities Service	USA	1,810	...	...	...	...	...	25
105	Citroën	France	1,792	33[k]	...	...	...	...	13
106	Bolse Cascade	USA	1,786	...	...	...	...	...	...
107	Ralston Purina	USA	1,746	...	...	...	...	...	26
108	Sperry Rand	USA	1,739	34[j]	...	28[h]	...	42[h]	27
109	Coca-Cola	USA	1,729	31[j]	...	30[d]	11[d]	...	11
110	Burlington Industries	USA	1,727	4[h]	...	8[h]	...	...	...
111	Cie Générale d'Electricité	France	1,699	20[k]	...	...	...	...	14
112	Courtaulds	UK	1,696	22[j]	...	...	...	16[j]	31
113	Armco Steel	USA	1,696	...	...	3[d]	...	11[d]	...
114	Consolidated Foods	USA	1,689	...	...	...	...	...	10
115	Peugeot	France	1,685	36[k]	...	...	...	...	...
116	Uniroyal	USA	1,678	27[j]	...	30[h]	75[j]	...	20
117	American Brands	USA	1,627	...	...	...	...	...	...
118	Ashland Oil	USA	1,614	1[d]	...	4[d]	2[d]	2[d]	17
119	Bendix	USA	1,613	49[e]	14[h]	10[h]	...	...	20
120	Robert Bosch	FRG	1,607	39[j]	8[j]	...	...	20[j]	23

Table 3. Foreign content of operations and assets of manufacturing corporations of market economies with sales of over $1 billion, 1971 (continued)

Rank[a]	Company	Nationality	Total sales (millions of dollars)	Foreign content as percentage of: Sales[b]	Production	Assets	Earnings	Employment	Number of subsidiary countries[c]
121	ARBED	Luxembourg	1,604	...	...	...	...	...	...
122	Textron	USA	1,604	26[d]	...	...	...	...	13
123	U.S. Plywood-Champion Papers	USA	1,600	...	...	...	...	...	...
124	Brown Boveri	Switz.	1,599	76[j]	...	...	...	82[h]	11
125	Sumitomo Metal Industries	Japan	1,598	37[k]	...	...	...	...	3
126	Gulf and Western Industries	USA	1,566	...	...	...	...	...	14
127	TRW	USA	1,544	...	...	...	...	...	16
128	Associated British Foods	UK	1,525	32[j]	...	...	34[j]	24[j]	...
129	National Steel	USA	1,522	...	...	...	...	...	...
130	Owens-Illinois	USA	1,508	...	...	10[d]	9[d]	27[d]	15
131	CPC International	USA	1,500	50[j]	46[h]	27[h]	51[j]	...	22
132	Michelin	France	1,500	50[i]	...	...	...	...	13
133	Rheinstahl	FRG	1,483	23[i]	...	...	...	...	...
134	Kobe Steel	Japan	1,466	...	...	...	...	...	...
135	National Cash Register	USA	1,466	45[j]	41[h]	35[h]	60[h]	...	42
136	United Brands	USA	1,499	...	...	...	...	...	...
137	Georgia-Pacific	USA	1,447	...	...	...	...	...	...
138	Aluminium Co. of America	USA	1,441	...	...	7[d]	...	...	28
139	Hoesch	FRG	1,431	26[i]	...	...	...	...	14
140	Alcan Aluminium	Canada	1,431	...	...	42[h]	...	...	33[g]
141	American Home Products	USA	1,429	19[d]	...	14[d]	14[d]	...	27
142	American Standard	USA	1,410	36[j]	28[h]	30[h]	33[j]	...	21
143	U.S. Industries	USA	1,407	45[e]	...	...	5[e]	...	...
144	Hoffmann-LaRoche	Switz.	1,402	80[j]	...	...	...	83[h]	...
145	Standard Oil (Ohio)	USA	1,394	...	49[j]	...	...	...	...
146	Republic Steel	USA	1,385	...	...	...	...	...	...
147	GKN (Guest, Keen and Nettlefolds)	UK	1,377	16[j]	...	31[j]	38[j]	21[j]	27
148	KF (Kooperativa Förbundet)	Sweden	1,376	9[i]	...	...	...	...	13
149	FMC	USA	1,354	9[d]	...	...	...	...	19
150	Petrofina	Belgium	1,350	...	...	90[i]	...	...	21

Table 3. Foreign content of operations and assets of manufacturing corporations of market economies with sales of over $1 billion, 1971 (continued)

Rank[a]	Company	Nationality	Total sales (millions of dollars)	Foreign content as percentage of: Sales[b]	Production	Assets	Earnings	Employment	Number of subsidiary countries [c]
151	Amerada Hess	USA	1,349	...	...	...	...	...	...
152	Warner-Lambert	USA	1,346	36[j]	33[h]	32[h]	33[g]	...	47
153	Getty Oil	USA	1,343	...	...	...	...	...	19
154	Reed International	UK	1,330	25[j]	...	...	...	17[j]	13
155	Allied Chemical	USA	1,326	...	...	...	...	6[d]	14
156	Colgate-Palmolive	USA	1,310	52[j]	...	50[h]	88[d]	70[d]	55
157	Raytheon	USA	1,308	6[d]	...	...	13[h]	13[h]	18
158	Genesco	USA	1,307	...	...	...	...	...	13
159	B.F. Goodrich	USA	1,300	...	...	...	...	...	24
160	Weyerhaeuser	USA	1,300	...	...	2[d]	...	...	12
161	Mitsubishi Electric	Japan	1,294	...	...	...	...	...	...
162	Taiyo Fishery	Japan	1,292	13[k]	...	...	...	21[k]	25
163	American Cyanamid	USA	1,283	18[j]	...	18[d]	30[j]	17[d]	27
164	Signal Companies	USA	1,281	...	...	...	...	...	16
165	Ishikawajima-Harima Heavy Industries	Japan	1,280	32[k]	...	-	...	13[k]	8
166	Whirlpool	USA	1,274	...	...	4[d]	...	...	...
167	Inland Steel	USA	1,254	...	...	...	...	...	...
168	Columbia Broadcasting System	USA	1,248	...	...	...	...	...	19
169	Metallgesellschaft	FRG	1,248	22[j]	6[j]	...	...	...	17
170	Thomson Brandt	France	1,246	23[k]	...	...	...	...	...
171	PPG Industries	USA	1,238	...	...	...	...	...	10
172	Celanese	USA	1,236	19[j]	...	22[h]	18[e]	...	21
173	American Motors	USA	1,232	...	...	9[d]	...	...	10
174	Pepsi Co.	USA	1,225	34[d]	...	...	...	52[d]	25
175	Pemes (Petrôleos Mexicanos)	Mexico	1,214	...	...	...	...	...	...
176	Philip Morris	USA	1,210	...	...	...	...	...	11
177	Volvo	Sweden	1,196	69[k]	26[h]	...	...	...	13
178	Deere	USA	1,188	...	...	...	...	...	14
179	Marathon Oil	USA	1,182	...	...	...	...	4[d]	...
180	Imperial Tobacco Group	UK	1,173	5[j]	...	...	...	11[j]	13

Table 3. Foreign content of operations and assets of manufacturing corporations of market economies with sales of over $1 billion, 1971 (continued)

Rank[a]	Company	Nationality	Total sales (millions of dollars)	Foreign content as percentage of: Sales[b]	Production	Assets	Earnings	Employment	Number of subsidiary countries[c]
181	Kawasaki Steel	Japan	1,162	27[k]	...	...	...	14[k]	18
182	Hawker Siddeley Group	UK	1,151	36[j]	...	40[j]	...	18[j]	20
183	Borg-Warner	USA	1,148	...	...	...	...	...	21
184	Carnation	USA	1,148	...	...	...	...	...	...
185	Olin	USA	1,145	...	...	...	...	...	18
186	Idemitsu Kosan	Japan	1,145	...	...	...	...	...	...
187	Johnson and Johnson	USA	1,140	25[e]	...	27[e]	25[d]	40[d]	18
188	General Mills	USA	1,120	...	...	...	...	...	...
189	Teledyne	USA	1,102	...	...	...	...	...	...
190	Mitsubishi Chemical Industries	Japan	1,095	...	...	...	...	...	...
191	Reynolds Metal	USA	1,093	54[l]	28[h]	32[d]	4[d]	...	...
192	Usinor	France	1,092	18[j]	...	...	...	...	...
193	Rio Tinto-Zinc	UK	1,087	74[j]	...	82[j]	71[j]	71[j]	20
194	Italsider	Italy	1,080	...	7[h]	...	...	...	...
195	British Insulated Callender's Cables	UK	1,080	35[j]	...	...	55[j]	36[j]	17
196	Nabisco	USA	1,070	...	...	...	...	...	16
197	Wendel-Sidelor	France	1,067	37[k]	...	...	...	...	...
198	Bristol-Myers	USA	1,066	...	...	...	...	...	15
199	Combustion Engineering	USA	1,066	...	...	...	...	...	12
200	Salzgitter	FRG	1,061	...	...	...	...	...	12
201	Standard Brands	USA	1,057	5[d]	...	9[d]	10[d]	...	26
202	Mead	USA	1,056	...	...	...	...	...	13
203	Kennecott Copper	USA	1,053	...	...	...	...	...	13
204	Norton Simon	USA	1,052	...	...	...	...	...	...
205	Petróleo Brasileiro (Petrobras)	Brazil	1,044	74[l]	...	...	...	...	...
206	Ogden	USA	1,043	...	...	...	...	...	...
207	Eaton	USA	1,036	23[h]	...	25[h]	22[h]	35[e]	...
208	Henkel	FRG	1,033	...	...	...	...	29[j]	8
209	Campbell Soup	USA	1,032	...	...	...	8[d]	...	7
210	Massey-Ferguson	Canada	1,029	90[g]	62[g]	84[g]	...	...	22
211	Iowa Beef Processors	USA	1,015	...	...	...	...	...	...

Source: See table 2.

a/ Corporations are ranked in descending order of sales.

b/ Total sales to third parties (non-affiliate firms) outside the home country.

c/ Countries in which the parent corporation has at least one affiliate, except in the case of Japan, where the number of foreign affiliates is reported.

d/ 1964.

e/ 1965.

f/ 1966.

g/ 1967.

h/ 1968.

i/ 1969.

j/ 1970.

k/ 1971.

l/ 1972.

Table 4. Multinational corporations of selected developed market economies: parent corporations and affiliate networks by home country, 1968-1969

Home country a/	Total parent: Number	Total parent: Percentage	Parent corporations with affiliates in: 1 country	2-9 countries	10 - 19 countries	Over 20 countries	Affiliates: Minimum number b/	Affiliates: Percentage
United States...	2,468	33.9	1,228	949	216	75	9,691	35.5
United Kingdom..	1,692	23.3	725	809	108	50	7,116	26.1
Federal Republic of Germany.....	954	13.1	448	452	43	11	2,916	10.7
France..........	538	7.4	211	275	42	10	2,023	7.4
Switzerland.....	447	6.1	213	202	26	6	1,456	5.3
Netherlands.....	268	3.7	92	149	20	7	1,118	4.1
Sweden..........	255	3.5	93	129	24	9	1,159	4.2
Belgium.........	235	3.2	137	88	8	2	594	2.2
Denmark.........	128	1.8	54	69	4	1	354	1.3
Italy...........	120	1.7	57	54	3	6	459	1.7
Norway..........	94	1.3	54	36	4	-	220	0.8
Austria.........	39	0.5	21	16	2	-	105	0.4
Luxembourg......	18	0.2	10	7	1	-	55	0.2
Spain...........	15	0.2	11	4	-	-	26	0.1
Portugal........	5	0.1	3	2	-	-	8	-
TOTAL	7,276	100.0	3,357	3,241	501	177	27,300	100.0

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on Yearbook of International Organisations, 13th ed., 1970-1971.

a/ Countries are arranged in descending order of number of parent corporations.

b/ "Minimum number of affiliates" refers to the number of "links" between parent corporations and host countries. Two or more affiliates of a particular corporation in a given foreign country are counted as one "link".

Table 5. Market economies: stock of foreign direct investment (book value), 1967, 1971
(Millions of dollars and percentage)

Country[a]	1967 Millions of dollars	1967 Percentage share	1971[b] Millions of dollars	1971[b] Percentage share
United States	59,486	55.0	86,001	52.0
United Kingdom	17,521	16.2	24,019	14.5
France	6,000	5.5	9,540	5.8
Federal Republic of Germany	3,015	2.8	7,276	4.4
Switzerland	4,250[c]	3.9	6,760	4.1
Canada	3,728	3.4	5,930	3.6
Japan	1,458	1.3	4,480[d]	2.7
Netherlands	2,250	2.1	3,580	2.2
Sweden[e]	1,514	1.4	3,450	2.1
Italy	2,110[f]	1.9	3,350	2.0
Belgium	2,040[f]	0.4	3,250	2.0
Australia	380[f]	1.9	610	0.4
Portugal	200[f]	0.2	320	0.2
Denmark	190[f]	0.2	310	0.2
Norway	60[f]	0.0	90	0.0
Austria	30[f]	0.0	40	0.0
Other[g]	4,000[g]	3.7	6,000	3.6
TOTAL	108,200	100.0	165,000	100.0

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on table 11; Organisation for Economic Co-operation and Development, Stock of Private Direct Investments by DAC Countries in Developing Countries, End 1967 (Paris, 1972); United States Department of Commerce, Survey of Current Business, various issues; Bundesministerium für Wirtschaft, Runderlass Aussenwirtschaft, various issues; Handelskammer Hamburg, Deutsche Direktinvestitionen in Ausland (1969); Bank of England, Quarterly Bulletin, various issues; Hans-Eckart Scharrer, ed., Förderung privater Direktinvestitionen (Hamburg, 1972); Toyo Keizai, Statistics Monthly, vol. 32, June 1972; Canadian Department of Industry, Trade and Commerce, "Direct investment abroad by Canada, 1964-1967" (mimeo) (Ottawa, 1971); Skandinaviska Enskilda Banken, Quarterly Review, No. 2, 1972.

Foot-notes to table 5 (continued)

Note: According to the Organisation for Economic Co-operation and Development, op. cit., "...by the stock of foreign investment...is understood the net book value to the direct investor of affiliates (subsidiaries, branches and associates) in LDC's...Governments of DAC member countries decline all responsibility for the accuracy of the estimates of the Secretariat which in some cases are known to differ from confidential information available to the national authorities... Any analysis of detailed data in the paper should therefore be done with the utmost caution...", p. 4.

a/ Countries are arranged in descending order of book value of direct investment in 1971.

b/ Estimated (except for United States, United Kingdom, Federal Republic of Germany, Japan and Sweden) by applying the average growth rate of the United States, United Kingdom and Federal Republic of Germany between 1966 and 1971.

c/ Data from another source for 1965 ($4,052 million) and 1969 ($6,043 million) seem to indicate that the 1967 and 1971 figures are probably relatively accurate. See, Max Iklé, Die Schweiz als internationaler Bank und Finanzplatz (Zurich 1970).

d/ Financial Times, 4 June 1973.

e/ The figures for Sweden are for 1965 and 1970 instead of 1967 and 1971 and they are in current prices for total assets of majority-owned manufacturing subsidiaries.

f/ Data on book value of foreign direct investment are only available for developing countries. Since the distribution of the minimum number of affiliates between developing countries and developed market economies correlates highly with the distribution of book value, the total book value has been estimated on the basis of the distribution of their minimum number of affiliates. For Australia, the average distribution of the total minimum number of affiliates has been applied.

g/ Estimated, including developing countries.

Table 6. United States multinational corporations: average size[a] of foreign affiliates by sector and area, 1966

(Thousands of dollars)

Sector	World total	Developing countries [b]	Developed market economies
Mining and smelting......	8,330	7,668	8,906
Petroleum................	8,746	8,981	8,486
Manufacturing............	2,361	1,399	2,761
Public utilities.........	2,165	2,646	1,397
Trade....................	1,114	1,219	1,070
Other....................	818	477	1,044
TOTAL, all sectors	2,350	2,186	2,440

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on United States Department of Commerce, Survey of Current Business, October 1968; and United States Direct Investments Abroad, 1966, Part I: Balance of Payments Data, (Washington, D.C., 1970).

a/ Book value divided by number of affiliates.

b/ Includes international shipping.

Table 7. Average size[a] of United States and United Kingdom foreign affiliates by area, in selected years

(Thousands of dollars)

Area	United States			United Kingdom	
	1950	1957	1966	1965	1968
Developed market economies......	1,221	2,299	2,413	1,822	2,105
Canada........................	1,825	3,171	3,172	2,903	3,282
Western Europe................	769	1,564	1,885	920	1,063
European Economic Community.	651	1,371	1,867	925	1,172
United Kingdom.............	1,219	2,342	2,449	-	-
Japan.........................	.333	1,350	1,424	551	771
Southern hemisphere...........	1,019	1,846	1,657	2,429	2,879
United States.................	-	-	-	3,001	3,867
Unallocated....................				5,372	3,954
Developing countries[b]..........	2,083	2,548	2,096	1,600	1,575
Africa........................	840	1,344	2,158	1,479	1,412
Asia..........................	1,956	2,615	2,037	1,506	1,424
Western hemisphere............	2,220	2,639	2,106	2,027	2,299
Unallocated....................	...	8,748	4,710	467	5,298
TOTAL	1,589	2,472	2,350	1,742	1,919

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on United States Department of Commerce, United States Direct Investments Abroad, 1966, Part I: Balance of Payments Data, (Washington, D.C., 1970) and Survey of Current Business, various issues; United Kingdom Department of Trade and Industry, Trade and Industry, various issues.

a/ Book value of foreign direct investment divided by number of affiliates.

b/ The developing countries comprise the countries and territories of Africa (other than South Africa), Asia and the Pacific (other than Australia, China, the Democratic People's Republic of Korea, the Democratic Republic of Viet-Nam, Japan, Mongolia, New Zealand and Turkey) and Central and South America and the Caribbean (other than Puerto Rico and the United States Virgin Islands).

Table 8. United States multinational corporations: number of foreign affiliates by area, 1950, 1957 and 1966

Area	1950 Number	1950 Percentage distribution	1957 Number	1957 Percentage distribution	1966 Number	1966 Percentage distribution	Average annual rate of growth (Percentage) 1950-1957	Average annual rate of growth (Percentage) 1957-1966
Developed market economies..........	4,657	62.8	6,105	59.4	15,128	65.0	3.9	10.6
Canada............	1,961	26.4	2,765	26.9	4,360	18.7	2.9	5.2
Western Europe....	2,236	30.1	2,654	25.8	8,611	37.0	2.5	14.0
European Economic Community......	1,003 a/	13.5	1,225	11.9	4,063	17.5	2.9	14.3
United Kingdom..	695	9.4	842	8.2	2,310	9.9	2.8	11.9
Israel............	44	0.6	44	0.4	103	0.4	-	9.9
Japan.............	57	0.8	137	1.3	531	2.3	13.3	16.2
Southern hemisphere...........	359	4.8	505	4.9	1,523	6.5	5.0	13.0
Developing countries	2,760	37.2	4,048	39.4	7,718	33.2	5.6	7.4
Africa............	175	2.4	270	2.6	683	2.9	6.4	10.9
Asia b/...........	524	7.1	727	7.1	1,599	6.9	4.8	9.2
Western hemisphere	2,061	27.8	3,051	29.7	5,436	23.3	5.8	6.6
Unallocated.........	...	...	119	1.2	436	1.9	...	15.5
TOTAL	7,417	100.0	10,272	100.0	23,282	100.0	4.8	9.5

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on United States Department of Commerce, United States Direct Investments Abroad, 1966, Part I: Balance of Payments Data (Washington, D.C., 1970).

a/ Excluding Luxembourg.

b/ Including Turkey and Oceania (other than Australia and New Zealand).

Table 9. Selected developed market economies: direct investment flows, inward and outward, 1960, 1965-1971

(Millions of dollars)

Country and region		Direct investment flow							
		1960	1965	1966	1967	1968	1969	1970	1971
North America									
Canada...............	Outward	-52	-116	-5	-116	-209	-344	-283	-303
	Inward	691	495	731	639	547	669	800	877
United States........	Outward	-1,674	-3,468	-3,661	-3,137	-3,209	-3,254	-4,440	-4,765
	Inward	140	57	86	258	319	832	1,030	-67
Western Europe									
European Economic Community									
Belgium-Luxembourg.	Outward	...	-40	-8	-52	-52	-14	-156	...
	Inward	...	142	140	230	250	276	318	...
France[a]...........	Outward	-100[b]	-233	-170	-354	-343	-193	-373	-346
	Inward	176[b]	334	293	342	196	295	622	524
Federal Republic of Germany...........	Outward	-116	-263	-307	-260	-397	-545	-686	...
	Inward	169	823	860	703	370	347	299	...
Italy..............	Outward	-10[b]	-178	-97	-234	-261	-283	-109	...
	Inward	197	286	315	262	332	418	606	...
Netherlands........	Outward	-134	-148	-256	-298	-342	-498	-512	...
	Inward	42	153	158	254	324	354	536	...
United Kingdom.........	Outward	-700	-862	-773	-770	-984	-1,313	-1,166	...
	Inward	745	551	546	461	657	765	761	...

Other									
Denmark	Outward	-9	-16	-6	-	-9	-15	-29	...
	Inward	37	90	43	110	-24	124	104	...
Finland..............	Outward	...	-3	-4	-8	-24	-18	-52	...
	Inward	...	5	6	12	9	20	18	...
Norway...............	Outward	-3	-2	-7	18	-10	-16	-32	...
	Inward	12	23	28	70	33	27	26	...
Portugal.............	Outward	...	-	-	-	-	-1	-7	...
	Inward	...	24	28	13	27	24	21	...
Spain................	Outward	-	-7	-6	-6	-9	-13	-43	-25
	Inward	36	123	134	186	152	200	222	201
Sweden...............	Outward	-29	-102	-118	-110	-45	-237	-195	-172
	Inward	20	87	139	101	105	155	108	81
Japan..................	Outward	-79	-77	-107	-123	-220	-206	-355	-360
	Inward	6	47	30	45	76	72	94	210
Southern hemisphere									
Australia............	Outward	...	-20	-32	-55	-59	-124	-114	...
	Inward	...	137	464	485	659	660	926	...
New Zealand..........	Outward	...	-1	1	-	-1	-4	-1	1
	Inward	...	-3	-1	8	-5	-	23	54
South Africa.........	Outward	...	-4	-32	-10	-31	-28	-20	-41
	Inward	...	109	149	92	287	262	410	336
TOTAL c/	Outward	-2,906	-5,540	-5,588	-5,515	-6,205	-7,106	-8,518	...
	Inward	2,271	3,483	4,149	4,271	4,314	5,500	6,862	...

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on Organisation for Economic Co-operation and Development, Policy Perspectives for International Trade and Economic Relations (Paris, OECD, 1972); International Monetary Fund, Balance of Payments Yearbook, various issues.

a/ 1961 figures.

b/ 1961-1966 covers transactions of metropolitan France with the non-franc area only, 1967-1971 covers transactions of metropolitan France with the rest of the world.

c/ 1960, only 12 countries with available data are included.

Table 10. Selected developed market economies: stock of foreign direct investment, 1960-1971

(Millions of dollars and percentage)

Year	Japan	Federal Republic of Germany	United Kingdom	United States
	A. Book value (millions of dollars)			
1960..................	289.0	758.1	11,988.2	32,765
1961..................	453.8	968.7[a]	12,912.1	34,664
1962..................	535.2	1,239.6	13,649.1	37,149
1963..................	679.2	1,527.3	14,646.2	40,686
1964..................	799.5	1,811.7	16,415.6	44,386
1965..................	956.2	2,076.1	16,796.5	49,328
1966..................	1,183.2	2,513.2	17,531.4	54,711
1967..................	1,458.1	3,015.0	17,521.1[a]	59,486
1968..................	2,015.3	3,587.0	18,478.8	64,983
1969..................	2,682.9	4,774.5[a]	20,043.2	71,016
1970..................	3,596.3	5,774.5	21,390.5	78,090
1971..................	4,480.0[a]	7,276.9[a]	24,019.0[a]	86,001
	B. Average annual rate of growth (percentage)			
1960-1965............	27.0	22.3	7.0	8.5
1965-1971............	29.4	23.2	6.1	9.7
1960-1971............	28.3	22.8	6.5	9.2

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on Hans-Eckart Scharrer, ed., Förderung privater Direktinvestitionen (Hamburg, 1972); Toyo Keizai, Statistics Monthly, vol. 32, June 1972; Bundesministerium für Wirtschaft, Runderlass Aussenwirtschaft, various issues; Bank of England, Quarterly Bulletin, various issues; United States Department of Commerce, Survey of Current Business, various issues; Financial Times, 6 April 1973.

a/ Exchange rate change.

Table 11. Multinational corporations of selected developed market economies: number of affiliates and distribution by area, 1968 or 1969

Home countries a/	Minimum number of affiliates b/	Distribution of affiliates by area: World (percentages): Developed market economies	Developing countries	Developing countries (percentages): Africa	Western hemisphere	Asia c/
United States.....	9,691	74.7	25.3	8.3	72.8	18.8
United Kingdom....	7,116	68.2	31.8	40.0	28.5	31.5
Federal Republic of Germany.......	2,916	82.2	17.8	21.8	49.9	28.3
France............	2,023	59.7	40.3	66.6	24.1	9.2
Switzerland.......	1,456	85.7	14.4	15.8	60.3	23.9
Sweden............	1,159	83.4	16.6	10.4	66.7	22.9
Netherlands.......	1,118	72.6	27.4	27.8	47.4	24.8
Belgium...........	594	69.7	30.3	69.4	21.7	8.9
Italy.............	459	67.3	32.7	30.0	56.0	14.0
Denmark...........	354	84.8	15.2	27.8	35.2	37.0
Norway............	220	84.6	15.5	47.1	26.5	26.5
Austria...........	105	81.0	19.0	5.0	50.0	45.0
Luxembourg........	55	85.5	14.5	37.5	62.5	-
Spain.............	26	73.1	26.9	14.3	85.7	-
Portugal..........	8	50.0	50.0	75.0	25.0	-
TOTAL	27,300	73.6	26.4	29.3	47.9	22.8

Source: See table 4.

a/ Countries are arranged in descending order of minimum number of affiliates.

b/ This column reports only the number of "links" from parent corporations to host countries. Two or more affiliates of a particular corporation in a given foreign country are counted as one "link".

c/ Including Oceania (other than Australia and New Zealand), Turkey, Cyprus.

Table 12. Development Assistance Committee countries: estimated stock of foreign direct investment, by country of origin and region of investment, end 1967

(Millions of dollars and percentage)

Country of origin a/	World (total book value,b/ millions of dollars)	Developing countries c/ Total book value (millions of dollars)	Africa	Central America	South America	Middle East	Asia	Total developing
			(percentage share)					
United States..	59,486	16,703	2.3	7.4	12.4	3.0	3.0	28.1
United Kingdom.	17,521	6,582	11.3	4.7	5.0	4.8	11.8	37.6
France.........	6,000	2,689	28.8	1.0	6.8	2.7	5.5	44.8
Netherlands....	2,250	1,694	14.4	8.2	33.6	7.7	11.4	75.3
Canada.........	3,728	1,453	1.5	13.3	22.7	0.2	1.3	39.0
Federal Republic of Germany....	3,015	1,018	4.6	3.4	22.8	0.8	2.2	33.8
Japan..........	1,458	700	0.9	6.9	20.9	5.8	13.5	48.0
Italy..........	2,110	696	11.7	1.0	17.6	1.2	1.4	33.0
Belgium........	2,040	613	23.6	-	5.5	0.1	0.8	30.0
Switzerland....	4,250	565	1.4	3.4	6.7	0.1	1.7	13.3
Sweden.........	1,514	180	5.3	0.8	4.6	-	1.2	11.9
Australia......	380	100	-	-	-	-	26.3	26.3
Portugal.......	200	99	...	...	3.0	...	...	49.5
Denmark........	190	29	8.7	1.5	1.2	1.0	2.7	15.3
Norway.........	60	9	5.0	-	10.0	-	-	15.0
Austria........	30	5	-	-	16.7	-	-	16.7
TOTAL, DAC countries	104,232	33,135	6.3	6.1	11.6	3.0	4.8	31.8

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on table 5 and Organisation for Economic Co-operation and Development, Stock of Private Direct Investments by DAC Countries in Developing Countries, end 1967 (Paris, 1972).

a/ Countries are arranged in descending order of value of total investment stock in developing countries.

b/ Not including centrally planned economies; see also table 5.

c/ Countries included in developing regions, throughout tables, based on OECD figures, are listed in table 35.

Table 13. Development Assistance Committee countries: estimated stock of foreign investment by sector, end 1966

(Value and percentage)

Sector	Area of investment: Total world a/ Value (millions of dollars)	Total world a/ Percentage	Developed market economies Value (millions of dollars)	Developed market economies Percentage	Developing countries Value (millions of dollars)	Developing countries Percentage	Developing countries (percentage of total world)
Petroleum...........	25,942	28.9	14,050	23.6	11,892	39.7	45.8
Mining and smelting.	5,923	6.6	3,122	5.2	2,801	9.3	47.3
Manufacturing.......	36,246	40.5	28,199	47.3	8,047	26.9	22.2
Other...............	21,472	24.0	14,242	23.9	7,230	24.1	33.7
TOTAL	89,583	100.0	59,613	100.0	29,970	100.0	33.5

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based cn Organisation for Economic Co-operation and Development, as tabulated in Sidney E. Rolfe, *The International Corporation* (Paris, 1969).

a/ Not including centrally planned economies.

Table 14. Development Assistance Committee countries: estimated stock of foreign direct investment in developing countries, by sector and developing region, end 1967

(Value and percentage)

Sector[a]	Total (millions of dollars)	Share in total stock of DAC countries (percentage)	Distribution among developing regions (percentage)			
			Africa	Western hemisphere	Middle East	Asia
Petroleum............	10,962	33.1	23.7	40.9	25.3	10.1
Manufacturing........	9,627	29.1	12.8	69.1	2.0	16.1
Mining and smelting..	3,554	10.7	36.0	56.7	0.2	7.1
Trade................	2,601	7.8	15.3	64.1	1.2	19.4
Agriculture..........	2,046	6.2	24.3	29.7	0.1	45.9
Public utilities.....	1,570	4.7	4.2	87.3	0.7	7.8
Transport............	676	2.0	32.8	54.4	2.7	10.1
Banking..............	588	1.8	23.9	48.7	4.7	22.7
Tourism..............	448	1.4	9.8	57.9	4.0	28.3
Others...............	1,063	3.2	10.4	69.2	2.2	18.2
TOTAL	33,135	100.0	19.9	55.6	9.4	15.1

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on Organisation for Economic Co-operation and Development, Stock of Private Direct Investments by DAC Countries in Developing Countries, end 1967 (Paris, 1972).

a/ Sectors are arranged in descending order of value of stock of direct private investment in developing regions.

Table 15. Selected developed market economies: stock of foreign direct investment by sector and industry, 1965 and 1970

(Value and percentage)

Sector and industry	Federal Republic of Germany (end 1970)		Japan (end 1970)		United Kingdom (end 1965)		United States (end 1970)	
	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage
Distribution by sector								
All sectors, TOTAL	5,775	100.0	3,596	100.0	16,797	100.0	78,090	100.0
Mining..........	260	4.5)	1,127	31.3	(760	4.5	6,137	7.9
Petroleum.......	164	2.8)			(3,853	22.9	21,790	27.9
Others..........	908	15.7	1,506	41.9	6,290	37.4	17,932	23.0
Manufacturing...	4,443	76.9	963	26.8	5,894	35.1	32,231	41.3
Distribution by industry								
Manufacturing, TOTAL	4,443	100.0	963	100.0	5,894	100.0	32,231	100.0
Food products...	234	5.3	61	6.3	583	9.9	2,680	8.3
Textiles........	110	2.5	190	19.7	98	1.7	-	-
Lumber, pulp....	63	1.4	212	22.0	129	2.2	-	-
Chemicals.......	1,589	35.8	60	6.2	594	10.1	6,272	19.5
Steel, non-ferrous metals.	436	9.8	138	14.3	377	6.4	3,576	11.1
Machinery.......	428	9.6	67	7.0	943	16.0	4,012	12.4
Electrical products.......	677	15.2	71	7.4	519	8.8	2,606	8.1
Transport products.......	563	12.7	103	10.7	850	14.4	5,871	18.2
Others..........	343	7.7	61	6.3	1,801	30.5	7,214	22.4

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on Bundesministerium für Wirtschaft, Runderlass Aussenwirtschaft, 1 April 1971; Hans-Eckart Scharrer, ed., Förderung privater Direktinvestitionen (Hamburg, 1972); Japanese Ministry of International Trade and Industry, White Paper on Foreign Trade, 1972; United Kingdom Board of Trade, Board of Trade Journal, 26 January 1968; United States Department of Commerce, Survey of Current Business, various issues.

Table 16. Multinational corporations of selected developed market economies: ownership patterns of foreign affiliates

(Number and percentage)

Form of ownership	United States[a/] Affiliates in developed market economies	United States[a/] Affiliates in developing countries	United Kingdom[b/] Affiliates in developed market economies	United Kingdom[b/] Affiliates in developing countries	Japan[c/] Affiliates in developed market economies	Japan[c/] Affiliates in developing countries
Wholly owned (more than 95 per cent)						
Number......	3,570	1,573	1,875	1,274	570	325
Percentage..	67.0	60.6	60.0	62.7	64.4	23.2
Majority owned (50 - 95 per cent)						
Number......	936	521	493	260	164	519
Percentage..	17.6	20.1	15.8	12.8	18.5	37.1
Minority owned (less than 50 per cent)						
Number......	373	287	761	499	128	492
Percentage..	7.0	11.0	24.3	24.5	14.5	35.2

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on Toyo Keizai, Statistics Monthly, vol. 32, June 1972; United Kingdom Board of Trade, Board of Trade Journal, 26 January 1968; James W. Vaupel and Joan P. Curhan, The Making of Multinational Enterprise, (Boston, 1969).

a/ 1967. Percentages do not add up to 100 because in a number of cases the form of ownership is unknown.

b/ End of 1965. "Wholly owned" is defined as 100 per cent owned. Branches are included. In terms of book value, 90.3 per cent of United Kingdom foreign direct investment in developing countries and 91.6 per cent of such investment in developed market economies is placed with affiliates which are at least 50 per cent owned by the parent corporation.

c/ 1970. Percentages do not add up to 100 because in a number of cases the form of ownership is unknown.

Table 17. Ownership patterns of foreign affiliates in selected developed market economies

(Number, value in millions of dollars and percentage)

	Wholly owned (more than 95 per cent)	Majority owned (50 - 95 per cent)	Minority owned (less than 50 per cent)
Affiliates in			
Australia[a]			
Manufacturing			
Number	1,641	516	148
Percentage	71.2	22.4	6.4
Value	140.2	455	171
Percentage	69.1	22.5	8.4
Mining			
Number	44	15	13
Percentage	61.1	20.8	18.1
Value	178	82	20
Percentage	63.7	29.2	7.0
Austria[b]			
Number	720	345	225
Percentage	55.8	26.7	17.4
Value	162	44	38
Percentage	66.3	18.1	15.6
Belgium[c]			
Value	1,422	216	283
Percentage	74.0	11.2	14.7
France[d]			
United States-owned			
Number	181	94	43
Percentage	56.9	29.6	13.5
Others			
Number	66	93	40
Percentage	33.2	46.7	20.1
Federal Republic of Germany[e]			
Number	5,020	1,108	1,633
Percentage	64.7	14.3	21.0
Value	4,720	535	674
Percentage	79.6	9.0	11.4

Table 17. Ownership patterns of foreign affiliates in selected developed market economies (continued)

(Number, value in millions of dollars and percentage)

	Wholly owned (more than 95 per cent)	Majority owned (50 - 95 per cent)	Minority owned (less than 50 per cent)
Affiliates in (continued)			
Japan[f]			
United States-owned			
Number	16	28	23
Percentage	23.9	41.8	34.3
Others			
Number	10	15	8
Percentage	30.3	45.5	24.2
New Zealand[f]			
Number	421	120	33
Percentage	73.4	20.9	5.7
United Kingdom[g]			
United States-owned			
Number	384	52	105
Percentage	71.0	9.6	19.4
Value	2,726	517	370
Percentage	75.4	14.3	10.2
Others			
Number	277	51	62
Percentage	71.0	13.1	15.9
Value	1,278	480	63
Percentage	70.2	26.3	3.5

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on Australian Bureau of Census and Statistics, "Overseas participation in Australian mining industry, 1967" and "Overseas participation in Australian manufacturing industry, 1962-1963 and 1966-1967" (mimeos), (Canberra); Oskar Grünwald and Ferdinand Lacina, Auslandskapital in der österreichischen Wirtschaft (Vienna, 1970); Banque Nationale de Belgique, Bulletin d'Information et de Documentation, vol. 2, October 1970; Société d'Editions Economiques et Financières, Les Maisons Financières Françaises (Paris, 1966); Deutsche Bundesbank, Monthly Report, January 1972; Bank of Tokyo, The President Directory, 1973 (Tokyo, 1972); Roderick S. Deane, Foreign Investment in New Zealand Manufacturing (Wellington, 1970); United Kingdom Board of Trade, Board of Trade Journal, 26 January 1968.

a/ 1966-1967 for manufacturing; 1967 for mining. "Wholly owned" is defined as 75 per cent or more owned. "Value" is in terms of value of production.

b/ 1969. Limited liability companies only. "Wholly owned" is defined as 100 per cent owned. "Value" is in terms of nominal capital.

c/ 1960-1967. "Wholly owned" is defined as 100 per cent owned. "Value" is in terms of book value.

d/ 1965.

e/ End of 1970. "Wholly owned" is defined as 90 per cent or more owned. "Value" is in terms of nominal capital.

f/ 1964. "Wholly owned" is defined as 100 per cent owned.

g/ End of 1965. "Wholly owned" is defined as 100 per cent owned. Branches are included. "Value" in terms of book value.

Table 18. Ownership patterns:[a] foreign affiliates of 187 United States multinational corporations, by area, 1939, 1957, 1967

(Number and percentage)

Area	Wholly owned			Majority owned			Minority owned		
	1939	1957	1967	1939	1957	1967	1939	1957	1967
Developed countries									
Number....................	953	1,682	3,570	194	340	936	58	129	373
Percentage................	69.7	70.7	67.0	14.2	14.3	17.6	4.2	5.4	7.0
Canada									
Number....................	277	551	817	26	61	101	6	20	44
Percentage................	78.5	79.7	78.0	7.4	8.8	9.6	1.7	2.9	4.2
Western Europe									
Number....................	570	896	2,221	154	222	651	45	86	227
Percentage................	64.6	66.1	65.3	17.4	16.4	19.1	5.1	6.3	6.7
European Economic Community									
Number....................	220	366	1,025	69	108	351	25	49	137
Percentage................	59.5	60.9	61.2	18.6	18.0	21.0	6.8	8.2	8.2
Japan									
Number....................	6	18	72	2	15	71	2	7	65
Percentage................	54.5	38.3	30.9	18.2	31.9	30.5	18.2	14.9	27.9
Southern hemisphere[b]									
Number....................	100	217	460	12	42	113	5	16	37
Percentage................	83.3	76.1	71.0	10.0	14.7	17.4	4.2	5.6	5.7
Developing countries									
Number....................	269	851	1,573	56	217	521	17	89	287
Percentage................	67.9	65.9	60.6	14.1	16.8	20.1	4.3	6.9	11.1
Central and South America									
Number....................	215	702	1,195	47	172	365	14	76	197
Percentage................	68.3	66.4	62.1	14.9	16.3	19.0	4.4	7.2	10.2
Africa, south of the Sahara									
Number....................	2	28	112	-	15	28	-	2	20
Percentage................	50.0	57.1	67.5	-	30.6	16.9	-	4.1	12.0

Middle East									
Number....................	8	30	50	3	8	20	2	4	12
Percentage...............	50.0	62.5	56.8	18.8	16.7	22.7	12.5	8.3	13.6
Other Asia									
Number....................	44	91	216	6	22	108	1	7	58
Percentage...............	72.1	66.4	51.6	9.8	16.1	25.8	1.6	5.1	13.8
TOTAL									
Number....	1,222	2,533	5,143	250	557	1,457	75	218	660
Percentage	69.3	69.0	64.9	14.2	15.2	18.4	4.3	5.9	8.3

Ownership patterns:[a/] foreign affiliates of 187 United States multinational corporations, by area, 1939, 1957, 1967

(Number and percentage)

Area	Unknown			Total		
	1939	1957	1967	1939	1957	1967
Developed countries						
Number......................	162	227	451	1,367	2,378	5,330
Percentage..................	11.9	9.5	8.5	100.0	100.0	100.0
Canada						
Number....................	44	59	86	353	691	1,048
Percentage...............	12.5	8.5	8.2	100.0	100.0	100.0
Western Europe						
Number....................	114	151	302	883	1,355	3,401
Percentage...............	12.9	11.1	8.9	100.0	100.0	100.0
European Economic Community						
Number....................	56	78	162	370	601	1,675
Percentage...............	15.1	13.0	9.7	100.0	100.0	100.0
Japan						
Number....................	1	7	25	11	47	233
Percentage...............	9.1	14.9	10.7	100.0	100.0	100.0

Table 18. Ownership patterns:[a] foreign affiliates of 187 United States multinational corporations, by area, 1939, 1957, 1967 (continued)

(Number and percentage)

Area	Unknown 1939	Unknown 1957	Unknown 1967	Total 1939	Total 1957	Total 1967
Southern hemisphere[b]						
Number	3	10	38	120	285	648
Percentage	2.5	3.5	5.9	100.0	100.0	100.0
Developing countries						
Number	54	134	216	396	1,291	2,597
Percentage	13.6	10.4	8.3	100.0	100.0	100.0
Latin America						
Number	39	107	167	315	1,057	1,924
Percentage	12.4	10.1	8.7	100.0	100.0	100.0
Sub-Saharan Africa						
Number	2	4	6	4	49	166
Percentage	50.0	8.2	3.6	100.0	100.0	100.0
Middle East						
Number	3	6	6	16	48	88
Percentage	18.8	12.5	6.8	100.0	100.0	100.0
Other Asia						
Number	10	17	37	61	137	419
Percentage	16.4	12.4	8.8	100.0	100.0	100.0
TOTAL						
Number	216	361	667	1,763	3,669	7,927
Percentage	12.3	9.8	8.4	100.0	100.0	100.0

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on J.W. Vaupel and J.P. Curhan, The Making of Multinational Enterprise (Boston, 1969).

a/ "Wholly owned" means that the affiliate's parent company holds 95 per cent or more of the voting stock; "majority owned" 50 - 94 per cent; "minority owned", 5 - 49 per cent.

b/ Includes Republic of South Africa, Rhodesia, Australia, New Zealand.

Table 19. Market economies: international production and exports, 1971

(Millions of dollars)

Country a/	Stock of foreign direct investment (book value)	Estimated international production b/	Exports	International production as percentage of exports
United States..........	86,000	172,000	43,492	395.5
United Kingdom.........	24,020	48,000	22,367	214.6
France.................	9,540	19,100	20,420	93.5
Federal Republic of Germany..............	7,270	14,600	39,040	37.4
Switzerland............	6,760	13,500	5,728	235.7
Canada.................	5,930	11,900	17,582	67.7
Japan..................	4,480	9,000	24,019	37.5
Netherlands............	3,580	7,200	13,927	51.7
Sweden.................	3,450	6,900	7,465	92.4
Italy..................	3,350	6,700	15,111	44.3
Belgium................	3,250	6,500	12,392 c/	52.4
Australia..............	610	1,200	5,070	23.7
Portugal...............	320	600	1,052	57.0
Denmark................	310	600	3,685	16.3
Norway.................	90	200	2,563	7.8
Austria................	40	100	3,169	3.2
TOTAL, above	159,000	318,000	237,082	133.7
Other	6,000	12,000	74,818	16.0
TOTAL, market economies	165,000	330,000	311,900	105.8

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on table 5 and Monthly Bulletin of Statistics (United Nations publication), vol. XXVII, April 1973.

a/ Countries are listed in descending order of book value of foreign direct investment.

b/ Estimated international production equals the book value of foreign direct investment multiplied by the factor 2.0. The estimate of this factor was derived as follows: the ratio of foreign sales to book value of foreign direct investment has been estimated from 1970 United States data on gross sales of majority-owned foreign affiliates and book value of United States foreign direct investment. "Gross sales of majority-owned foreign affiliates" (approximately $157 billion) includes transactions between foreign affiliates and parent corporations (approximately $20.3 billion) and inter-foreign affiliate sales (approximately $28.1 billion), which together account for about 30 per cent of gross foreign affiliate sales. The book value of United States foreign direct investment in

Foot-notes to table 19 (continued)

1970 amounted to $78.1 billion. The resulting ratio of gross sales to book value is 2:1. This ratio has been used to estimate the international production of non-United States foreign affiliates.

c/ Includes Luxembourg.

Table 20. Selected developed market economies: direct investment flow and flow of investment income, annual average, 1968-1970

(Millions of dollars and percentage)

Country[a]	Direct investment flow			Income on direct investment		
	Inward	Outward	Net	Inward	Outward	Net
United States.....	727.0	-3,621.0	-2,894.0	8,107.0	-866.3	7,240.7
United Kingdom....	727.7	-1,154.3	-426.6	1,535.0	-781.7	753.3
Federal Republic of Germany.......	338.7	-542.7	-204.0	49.3	-547.7	-498.4
Netherlands.......	404.7	-450.7	-46.0	496.0	-192.7	303.3
France............	371.0	-303.0	68.0	268.0	-33.2	234.8
Canada............	651.3	-273.7	377.6	171.0	-579.3	-408.3
Japan.............	80.7	-260.3	-179.6	56.0	-89.3	-33.3
Italy.............	452.0	-217.7	234.3	344.7[b]	-325.0[b]	19.7
Sweden............	122.7	-159.0	-36.3	52.7	-25.0	27.7
Australia.........	748.3	-99.0	649.3	53.0	-566.7	-513.7
Belgium-Luxembourg	281.3	-74.0	207.3	301.7[b]	-282.0[b]	19.7
Finland...........	15.7	-31.3	-15.6	-	-7.7	-7.7
South Africa......	319.7	-26.3	293.4	109.3	-365.0	-255.7
Spain.............	191.3	-21.7	169.6	2.3	-16.7	-14.4
Norway............	28.7	-19.3	9.4	23.0	-17.7	5.3
Denmark...........	68.0	-17.7	50.3	18.0	-24.3	-6.3
Austria[c]	48.0	-7.3	40.7	4.7	-29.3	-24.6
Portugal..........	24.0	-2.7	21.3	...	...	...
New Zealand.......	6.0	-2.0	4.0	-	-28.7	-28.7
Greece............	146.0	-	146.0	9.3	-47.0	-37.7

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on Organisation for Economic Co-operation and Development, *Policy Perspectives for International Trade and Economic Relations* (Paris, 1972); International Monetary Fund, *Balance of Payments Yearbook* (Washington, D.C.), various issues.

a/ Countries are arranged in descending order of outward direct investment flow.

b/ Estimated.

c/ 1969-1970.

Table 21. Stock of foreign direct investment in the United States, and stock of United States direct investment abroad, by country and sector, 1962, 1971

(Millions of dollars and percentage)

Country and sector	Foreign direct investment in the United States 1962	Foreign direct investment in the United States 1971a/	Average annual rate of growth between 1962-1971 (percentage)	United States direct investment abroad 1962	United States direct investment abroad 1971a/	Average annual rate of growth between 1962-1971 (percentage)	Book value of foreign direct investment in the United States as a percentage of book value of United States direct investment abroad 1962	Book value of foreign direct investment in the United States as a percentage of book value of United States direct investment abroad 1971a/
TOTAL (millions of dollars)...........	7,612	13,704	6.8	37,145	86,000	9.8	20.5	15.9
Percentage distribution by country and area								
Canada..............	27.1	24.4	5.5	32.7	27.9	7.9	17.0	13.9
Europe..............	68.9	73.5	7.5	23.8	32.1	13.5	59.3	36.5
United Kingdom....	32.5	32.4	6.7	10.2	10.4	10.0	65.0	49.6
European Economic Community.........	22.0	27.4	9.4	9.9	15.8	15.6	45.6	27.7
Belgium-Luxembourg...........	2.1	2.5	8.9	0.8	2.1	22.9	55.8	18.8
France...........	2.4	2.3	6.2	2.7	3.5	13.0	18.2	10.5
Federal Republic of Germany......	2.0	5.6	19.7	4.0	6.1	15.1	10.3	14.7
Italy............	1.3	0.8	1.0	1.4	2.2	14.7	18.5	5.9
Netherlands......	14.2	16.2	8.3	1.0	1.9	18.2	292.4	133.1
Other western Europe	14.4	13.8	6.2	3.7	5.9	15.8	80.3	36.9
Sweden............	2.4	1.7	2.8	0.5	0.8	16.4	101.7	33.2
Switzerland.......	11.0	11.2	7.0	1.5	2.2	14.5	150.6	81.6
Other.............	1.1	0.9	4.2	1.7	3.0	16.6	13.1	4.7
Developing western hemisphere.........	2.0	2.3	8.4	25.6	18.3	5.8	1.6	2.0
Other, unallocated..	2.0	-	-	17.9	21.6	12.1	-	-
TOTAL	100.0	100.0	-	100.0	100.0	-		
By sector								
Petroleum...........	18.6	22.7	9.1	34.1	28.2	7.5	11.2	13.8
Manufacturing.......	37.9	49.3	9.9	35.6	41.3	11.6	21.8	19.0
Other...............	43.5	28.0	1.7	30.3	30.5	9.9	29.3	14.6
TOTAL	100.0	100.0	-	100.0	100.0	-		

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on United States Department of Commerce, *Survey of Current Business*, various issues.

a/ Preliminary.

Table 22. Stock of foreign direct investment in selected developed market economies, by country of origin and sector

(Millions of dollars and percentage)

Item	Canada (1967)	Federal Republic of Germany (1970)	United Kingdom[a] (1965)
TOTAL, value	19,166	5,861	5,549
Distribution by country of origin, percentage			
Canada	-	1.4	12.0
Federal Republic of Germany	...	-	0.6
France	...	5.7	2.0
Netherlands	...	13.1	4.8
Switzerland	...	13.5	8.4
United Kingdom	10.4	10.2	
United States	82.1	42.7	66.0
Other	7.5	13.4	6.4
TOTAL	100.0	100.0	100.0
Distribution by sector, percentage			
Manufacturing	41.5	57.9	82.3
Petroleum	25.4	18.0[b]	...
Mining and smelting	12.3	4.3	...
Trade	6.1	8.9[c]	12.3
Financial	10.5	4.9	...
Other	4.2	6.0	5.4
TOTAL	100.0	100.0	100.0

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on Canadian Foreign Investment Division, "Foreign direct investment in Canada since the Second World War" (Amendment List Number 2), mimeo (Ottawa, 1970); Deutsche Bundesbank, Monthly Report, January 1972; United Kingdom Board of Trade, Board of Trade Journal, 26 January 1968.

a/ Excluding oil, insurance and banking.

b/ Petroleum extraction, processing and distribution.

c/ Distributive trade (excluding petroleum distribution) and transport and telecommunications.

Table 23. Selected developed market economies: foreign content[a] of selected industrial sectors [b]

Country and area	Foreign content: Very high (75 to 100 per cent)	High (50 to 75 per cent)	Medium (25 to 50 per cent)	Low (Less than 25 per cent)
North America				
Canada	Tobacco and cigarettes.....(1968-A) Coal and petroleum.........(1968-A) Chemicals.......(1968-A) Rubber products.(1968-A) Transport equipment......(1968-A) Oil refining....(1969-A)	Non-metallic minerals......(1968-A) Iron and steel.(1968-A) Machinery......(1968-A) Electrical machinery.....(1968-A) Others.........(1968-A) Mining.........(1969-A)	Wood products..(1968-A) Pulp and paper products......(1968-A) Metal products.(1968-A) Textiles.......(1968-A) Food...........(1968-A)	Leather products...(1968-A) Printing...........(1968-A) Furniture..........(1968-A) Non-financial services..........(1969-A) Retailing..........(1969-A) Construction.......(1969-A)
Western Europe				
Belgium.......	Timber processing.....(1967-A) Cars.........(US 1965-B)	Plastics.......(1969-B)	Refining....(US 1969-B) Iron and steel.........(1968-B)	Food...............(1968-B) Pulp and paper products..........(1968-B) Non-metallic minerals..........(1968-B) Textiles...........(1968-B)
France........	Electric power office equipment...........(1968-B) Elevators.......(1968-B) Photographic films ....(1968-B) Detergents......(1968-B)	Mineral oil.(US 1966-B)	Building machinery.....(1968-B) Gasoline.......(1968-B) Electrical components production.......(1968-B) Organic chemicals..........(1968-B) Pharmaceuticals(1968-B) Transport equipment.....(1968-B) Food processing(1968-B) Precision equipment.....(1968-B)	Refining........(US 1969-B) Cars............(US 1966-B)

Federal Republic of Germany.....	Petroleum and gas........(1970-A) Computers and electronics (US 1967-B)	Food...........(1970-A) Beverages and tobacco.......(1970-A) Rubber products(1970-A) Electrical machinery.....(1970-A) Plastics.......(1970-A)	Refining....(US 1969-B) Chemicals......(1970-A) Stones and ceramics......(1970-A) Leather products......(1970-A) Pulp and paper products......(1970-A) Glass.......(US 1967-B) Metal products.(1970-A) Textiles.......(1970-A) Machinery......(1966-A) Cars...........(1967-B) Public utilities.....(1970-A)	Cosmetics..........(1967-B) Tyres...........(US 1967-B) Packing industry........(US 1967-B) Iron and non-ferrous metal.....(1968-A) Footwear...........(1966-A) Commerce...........(1970-A) Agriculture........(1968-A) Mining.............(1968-A) Real estate........(1970-A) Services...........(1970-A) Finance and insurance......... (1968-A)
Italy........		Cosmetics...(US 1965-A) Rubber products......(1966-A)	Petroleum and gas........(US 1970-B) Refining....(US 1969-B) Wood products..(1966-A) Pharmaceuticals......(US 1970-B) Textiles.......(1966-A) Telecommunication equipment..........(1970-B)	Food..............(1966-A) Coffee and paste(US 1965-B) Soft drinks........(1965-A) Tobacco and cigarettes........(1965-A) Synthetic rubber(US 1965-A) Chemicals.......(US 1970-B) Pulp and paper products..........(1966-A) Non-metallic minerals..........(1966-A) Iron and steel.....(1966-A) Canning.........(US 1965-B) Machinery.......(US 1970-B) Others............(1966-A) Finance and insurance.........(1966-A) Commerce........(US 1970-B) Public utilities...(1966-A) Agriculture........(1966-A) Mining............(1966-A)

Table 23. Selected developed market economies: foreign content[a] of selected industrial sectors [b] (continued)

Country and area	Foreign content: Very high (75 to 100 per cent)	High (50 to 75 per cent)	Medium (25 to 50 per cent)	Low (Less than 25 per cent)
Western Europe (continued)				
United Kingdom	Razor blades....(1966-B) Typewriters..(US 1966-B) Computers and electronics (US 1966-B) Boot and shoe machinery......(1966-B) Sewing machines.(1966-B) Electric razors.(1966-B) Spark plugs.....(1966-B) Products for photography.(US 1966-B) Breakfast cereals........(1966-B)	Frozen foods...(1966-B) Tractors..(US 1970/1-B) Refrigerators..(1966-B)	Tobacco and cigar-ettes....(US 1970/1-B) Synthetic fibres........(1966-B) Soap and deter-gents....(US 1970/1-B) Pharmaceuti-cals.....(US 1970/1-B) Agricultural equip-ment.....(US 1970/1-B) Transport equipment.....(1966-B) Cars......(US 1970/1-B) Lifts and elevators.....(1966-B) Photographic equipment.....(1966-B) Dental equip-ment..........(1966-B) Plastics..(US 1970/1-B) Mining.........(1966-B) Petroleum..US 1970/1-B) Tyres..........(1966-B)	Foods.........(US 1970/1-B) Soft drinks...(US 1970/1-B) Chemicals.....(US 1970/1-B) Stones and ceramics.....(US 1970/1-B) Leather products.......(US 1965-A) Rubber products.....(US 1970/1-B) Printing......(US 1970/1-B) Pulp and paper products.....(US 1970/1-B) Metal products(US 1970/1-B) Textiles......(US 1970/1-B) Machinery.....(US 1970/1-B) Pump valves and compressors..(US 1970/1-B) Machine tools.(US 1970.1-B) Electrical machinery....(US 1970/1-B) Telecommuni-cation equipment ... (US 1970/1-B)

Austria......		Electrical machinery.....(1969-C)	Pulp and paper products......(1969-C)	Food..............(1969-C) Mineral fuels......(1969-C) Chemicals..........(1969-C) Stones and ceramics..........(1969-C) Wood products......(1969-C) Textiles...........(1969-C) Agricultural equipment.........(1969-C) Transport equipment..............(1969-C) Clothing...........(1969-C) Mining.............(1969-C) Leather products...(1969-C) Glass..............(1969-C) Metal products.....(1969-C)
Norway.......				Machinery..........(1970-A) Transport equipment(1970-A)
<u>Other</u>				
Australia....	Oils, minerals..(1967-B) Soap and detergent...........(1965-A) Pharmaceuticals.(1967-B) Telecommunication equipment......(1965-A) Transport equipment......(1967-B) Motor vehicles (construction and assembly)......(1967-B) Industrial and heavy chemicals, acids..........(1967-B)	Printing.......(1965-A) Iron and nonferrous metal.(1967-B) Musical instruments.........(1967-B) White lead, paints, varnishes, other chemicals.....(1967-B)	Food...........(1965-A) Meat freezing..(1967-B) Beverages and tobacco.......(1965-A) Tobacco and cigarettes....(1965-A) Refining.......(1965-A) Rubber products(1967-B) Packing industry......(1967-B) Glass..........(1965-A) Iron and steel.(1965-A) Agricultural equipment.....(1967-B) Electrical machinery.....(1967-B) Electrical appliances....(1967-B)	Timber processing..(1965-A) Pulp and paper products..........(1965-A) Textiles...........(1967-B) Machines and transport equipment....(1967-B) Plastics...........(1965-A)

Table 23. Selected developed market economies: foreign content a/ of selected industrial sectors b/ (continued)

Country and area	Foreign content: Very high (75 to 100 per cent)	High (50 to 75 per cent)	Medium (25 to 50 per cent)	Low (Less than 25 per cent)
Other (continued)				
Australia....			Clothing.......(1965-A) Footwear.......(1965-A) Wireless and amplifying apparatus.....(1967-B)	
Japan		Coal and petroleum.....(1968-B) Gas and petroleum.....(1971-B)		Food...............(1968-B) Chemicals..........(1971-B) Stones and ceramics..........(1970-A) Leather products...(1970-A) Pharmaceuticals....(1968-B) Iron and steel.....(1970-A) Iron and non-ferrous metals....(1971-B) Textiles...........(1970-A) Machinery..........(1970-A) Electrical machinery.........(1968-B) Transport equipment(1970-A) Cars...............(1968-B) Commerce...........(1970-A) Services...........(1970-A) Rubber products....(1971-B)

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on ANZ Banking Group Limited, "Foreign investment and multinational corporations in Australia" (Canberra, 1971) mimeo; Australian Commonwealth Treasury, Overseas Investment in Australia (Canberra, 1972); Banco di Roma, Review of Economic Conditions in Italy, September 1972; Bank of Japan, Manual of

Foreign Investment in Japan (Tokyo, 1970); Bank of Tokyo, The President Directory, 1973 (Tokyo, 1972); Banque Nationale de Belgique, Bulletin d'information et de documentation, October 1970; Jack N. Behrman, Some Patterns in the Rise of the Multinational Enterprise (Chapel Hill, 1969);K. Blauhorn, Jetzt kauft uns Amerika (Munich, 1968); Deutsche Bundesbank, Monthly Report, various issues; John H. Dunning, United States Industry in Britain (London, 1972); Government of Canada, Foreign Direct Investment in Canada, (Ottawa, 1972); O. Grünwald and F. Lacina, Auslandskapital in der österreichischen Wirtschaft (Vienna, 1970); Rainer Hellmann, The Challenge to U.S. Dominance of the International Corporation (New York, 1970); Industrial Bank of Japan, Survey of Japanese Finance and Industry, vol. XXIII, 1971; I. Litvak and C. Maule, ed. Foreign Investment: The Experience of Host Countries (New York, 1970); Organisation for Economic Co-operation and Development, Gaps in Technology - Analytical Report (Paris, 1970); S. Rolfe and W. Damm, ed., The Multinational Corporation in the World Economy, (New York, 1970); A. Stonehill, Foreign Ownership in Norwegian Enterprises (Oslo, 1965); D. van den Bulcke, Les enterprises étrangères dans l'industrie Belge (Ghent, 1971); E.L. Wheelwright, "Development and dependence: the Australian problem", The Australian Quarterly, vol. 43, September 1971; Business International, Investing, Licensing and Trading Conditions Abroad, various issues.

a/ Ratio of foreign to total assets, equity capital, employment, production or sales. Within the brackets, A refers to assets or equity capital, such capital in the case of Italy referring to nominal capital and in the case of Norway to the face value of shares held, B to production and C to employment. US indicates that data are for United States share only; they are provided to give an indication of minimum foreign content.

b/ The absence of a particular sector or industry does not necessarily mean that it has no foreign content. The table is illustrative rather than exhaustive.

Table 24. Manufacturing industries in selected host countries: share of United States plant and equipment expenditures in gross fixed capital formation of industry, 1966 and 1970

(Percentage)

Industry	Belgium-Luxembourg 1966	Belgium-Luxembourg 1970	Canada 1966	Canada 1970 a/	France 1966	France 1970	Federal Republic of Germany 1966	Federal Republic of Germany 1970 b/	United Kingdom 1966	United Kingdom 1970
All manufacturing	17.0	14.1	42.7	32.2	4.3 c/	5.8 c/	9.2	12.3	16.3	20.9
of which:										
Food....................	...	...	22.5	23.5	1.9	0.9	1.4	2.0	4.6	4.4
Chemicals...............	23.3	24.9	86.6	68.1	1.9 d/	2.1 d/	5.1	10.4	15.8	17.9
Primary and fabricated metals................)					1.7	1.0 e/	1.8	8.4	11.3	21.1 e/
Non-electrical machinery.............) Electrical machinery....)	19.3	12.0	64.0	57.8	15.4	23.3	19.4	27.8	21.5	29.0
Transportation equipment)					8.8	9.8	37.8	27.8	47.6	45.5
Paper and allied products...............	...	...	47.2	39.7	...	...	...	...	...	...
All other manufacturing...	10.6	10.8	7.9	13.6	1.0	2.8	1.1	2.7	11.6	18.2

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on United States Senate, Committee on Finance, Implications of Multinational Firms for World Trade and Investment and for United States Trade and Labor (Washington, D.C., 1973).

a/ Based on "intentions" data from Canadian Survey.
b/ Gross fixed capital formation is estimated.
c/ Including mining operations in metal industries.
d/ Including rubber.
e/ Partly estimated.

Table 25. Stock of foreign direct investment from Development Assistance Committee countries in southern European countries, by sector and country of origin, end 1967

(Millions of dollars and percentage)

		Distribution by sector							Distribution by country of origin a/					
Country or territory	Total (millions of dollars)	All sectors	Extractive b/	Manufacturing	Trade	Tourism	Other c/	All DAC countries (percentage)	United States	France	United Kingdom	Italy	Federal Republic of Germany	Other d/
Spain......	1,377.1	100.0	12.7	65.4	11.2	4.2	6.5	100.0	34.9	15.3	9.5	10.9	9.8	19.6
Greece.....	291.0	100.0	18.2	68.7	3.8	5.9	3.4	100.0	44.3	25.8	4.4	7.6	6.9	11.0
Turkey.....	253.2	100.0	60.3	35.2	1.2	0.4	2.9	100.0	42.2	1.6	18.6	3.2	9.5	24.9
Malta......	34.5	100.0	21.7	29.0	2.9	37.7	8.7	100.0	37.7	-	40.6	8.7	5.8	7.2
Cyprus.....	23.5	100.0	63.8	8.5	4.3	17.0	6.4	100.0	59.6	-	36.2	-	-	4.2
Gibraltar..	14.0	100.0	57.1	17.9	17.9	-	7.1	100.0	14.3	1.4	67.9	-	-	16.4
TOTAL	1,993.3	100.0	20.7	60.4	8.6	4.6	5.7	100.0	37.4	14.6	11.1	9.2	9.1	18.6

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on Organisation for Economic Co-operation and Development, Stock of Private Direct Investments by DAC Countries in Developing Countries, end 1967 (Paris, 1972).

a/ Countries are arranged left to right in descending order of share of total stock of foreign direct investment in southern European countries.

b/ Including petroleum, and mining and smelting.

c/ Including agriculture, public utilities, transport, banking and unclassified.

d/ Includes Australia (invested $1.0 million), Austria (2.0), Belgium (79.0), Canada (24.0), Denmark (2.4), Japan (2.0), Netherlands (95.4), Norway (3.0), Portugal (25.0), Sweden (8.5) and Switzerland (130.0). Together, these countries invested $372 million.

Table 26. Developed and developing countries: distribution of gross domestic product, exports and book value of foreign direct investment of market economies, 1967

(Percentage)

Area	Gross domestic product	Exports	Book value of direct investment by DAC countries
Developed countries.............	84.2	78.9	68.2
Developing countries............	15.8	21.1	31.8
TOTAL, market economies	100.0	100.0	100.0

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on Yearbook of National Accounts Statistics, vol. II, 1970 (United Nations publication, Sales No. E.72.XVII.3); Monthly Bulletin of Statistics (United Nations publication), January 1972.

Table 27. Developed market economies: foreign direct investment flows to developing countries - rate of growth and ratio to total capital flows, 1960-1971

(Millions of dollars and percentage)

Country[a]	Direct investment 1971 (Millions of dollars)	Annual rate of change 1960-1961 (average) to 1970-1971 (average)	Direct investment as percentage of total flow 1960-1961 (average)	1965-1966 (average)	1970-1971 (average)
United States..........	2,210.0	10.7	18.2	22.6	32.2
United Kingdom........	357.0	3.3	31.4	22.9	25.7
Netherlands...........	282.7	8.4	47.2	41.1	47.5
Federal Republic of Germany.............	247.8	14.3	10.5	16.6	19.4
Japan.................	235.5	11.0	36.5	19.0	12.7
Italy.................	193.7	9.8	31.3	11.7	21.0
France................	157.5	-5.1	23.5	26.6	11.8
Canada................	76.0	13.8	17.4	15.9	11.4
Switzerland...........	65.7	2.3	26.6	35.0	36.6
Sweden................	40.1	1.8	70.2	27.8	18.1
Australia.............	40.0	48.0	1.7	10.8	15.9
Belgium...............	26.2	0.4	19.1	32.3	11.5
Norway................	13.3	-	-	6.9	22.5
Denmark...............	10.0	12.6	10.2	-1.3	8.4
Portugal..............	2.0	-	-	25.6	3.1
Austria...............	-0.1	-	-	5.0	2.2
TOTAL, above (DAC countries)	3,957.5	7.9	21.6	22.4	23.6
Other[b].....	8.0	4.1	11.3	292.7	7.0
TOTAL, developed market economy countries	3,965.5	7.9	21.6	22.5	23.5

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on data from the Development Assistance Committee of the Organisation for Economic Co-operation and Development with some adjustments and estimates.

a/ Countries are arranged in descending order of amount of direct investment in 1971.

b/ Includes Finland, Iceland, Ireland, Luxembourg, New Zealand and South Africa.

Table 28. Selected developing countries: average annual rate of growth of stock of United States foreign investment a/ and gross domestic product, b/ 1960 and 1970

(Percentage)

Region and country	Year 1960-1965	1965-1970	1960-1970
Western hemisphere			
Argentina			
US foreign investment stock...	16.0	5.2	10.5
Gross domestic product........	12.3	3.6	7.8
Brazil			
US foreign investment stock...	2.4	11.4	6.8
Gross domestic product........	2.1	10.9	6.4
Chile			
US foreign investment stock...	2.4	-2.0	0.1
Gross domestic product........	7.1	2.5	4.8
Colombia			
US foreign investment stock...	4.4	5.5	5.1
Gross domestic product........	7.9	3.7	5.7
Mexico			
US foreign investment stock...	8.3	8.6	8.4
Gross domestic product........	10.1	11.7	10.9
Panama			
US foreign investment stock...	12.4	11.6	11.9
Gross domestic product........	9.7	9.7	9.7
Peru			
US foreign investment stock...	2.9	6.0	4.4
Gross domestic product........	15.6	7.0	11.2
Venezuela			
US foreign investment stock...	1.0	-	0.5
Gross domestic product........	1.9	5.0	3.4
Africa			
Liberia			
US foreign investment stock...	8.0	-1.7	3.0
Gross domestic product........	6.0	6.9	6.5
Libya			
US foreign investment stock...	17.3 c/	18.8	18.2 d/
Gross domestic product........	44.2 c/	20.1	29.0 d/
Asia			
India			
US foreign investment stock...	9.9	3.6	6.7
Gross domestic product........	9.9	1.0	5.4
Philippines			
US foreign investment stock...	5.1	5.8	5.4
Gross domestic product........	-0.9	2.1	0.6

Table 29. Development Assistance Committee countries: stock of foreign direct investment in developing countries, by country of origin and developing region, end 1967

(Millions of dollars and percentage)

Country[a]	Region				
	Middle East	Asia[b]	Africa	Western hemisphere[c]	Total
DAC countries					
TOTAL (millions of dollars)	3,102.7	4,991.5	6,591.1	18,449.3	33,134.6
TOTAL (percentage)	100.0	100.0	100.0	100.0	100.0
United States............	57.3	35.6	20.8	63.8	50.4
United Kingdom...........	27.1	41.5	30.0	9.2	19.9
France...................	5.2	6.6	26.3	2.5	8.1
Netherlands..............	5.6	5.1	4.9	5.1	5.1
Canada...................	0.2	1.0	0.7	7.3	4.4
Federal Republic of Germany................	0.7	1.4	2.1	4.3	3.1
Japan....................	2.7	3.9	0.2	2.2	2.1
Italy....................	0.8	0.6	3.8	2.1	2.1
Belgium..................	0.1	0.3	7.3	0.6	1.9
Switzerland..............	0.2	1.4	0.9	2.3	1.7
Other[d]..................	0.1	2.6	3.0	0.6	1.3

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on Organisation for Economic Co-operation and Development, Stock of Private Direct Investments by DAC Countries in Developing Countries, end 1967 (Paris, 1972).

a/ Countries are listed in descending order of total stock of foreign direct investment in developing countries.

b/ Including developing countries of Oceania.

c/ Including the Caribbean region.

d/ Australia, Austria, Denmark, Norway, Portugal, Sweden.

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on United States, Department of Commerce, Survey of Current Business, various issues, and Yearbook of National Accounts Statistics (United Nations publication), various issues.

a/ Book value at year end.

b/ At current prices, United States dollars.

c/ 1962-1965.

d/ 1962-1970.

Table 30. Development Assistance Committee countries: stock of foreign direct investment by sector and developing region, end 1967

(Millions of dollars and percentage)

Industrial sector a/	Total (millions of dollars)	Share in total stock of DAC countries (Percentage)	Distribution among developing regions: Africa, Millions of dollars	Africa, Percentage	Asia b/, Millions of dollars	Asia b/, Percentage	Middle East, Millions of dollars	Middle East, Percentage	Western hemisphere c/, Millions of dollars	Western hemisphere c/, Percentage
Petroleum...........	10,961.8	33.1	2,597.6	39.4	1,102.3	22.1	2,776.4	89.5	4,485.5	24.3
Production........	6,296.7	19.0	1,947.7	29.5	251.0	5.0	1,470.0	47.4	2,628.0	14.2
Refining..........	2,393.2	7.2	297.6	4.5	523.0	10.5	533.4	17.2	1,039.2	5.6
Transport.........	1,196.6	3.6	103.6	1.6	79.0	1.6	613.5	19.8	400.5	2.2
Marketing.........	1,075.3	3.2	248.7	3.8	249.3	5.0	159.5	5.1	417.8	2.3
Manufacturing.......	9,627.1	29.1	1,236.4	18.8	1,547.7	31.0	190.3	6.1	6,652.7	36.1
Mining and smelting.	3,554.4	10.7	1,279.8	19.4	252.5	5.1	6.0	0.2	2,016.1	10.9
Trade...............	2,600.9	7.8	398.2	6.0	504.4	10.1	30.0	1.0	1,668.3	9.0
Agriculture.........	2,045.8	6.2	496.8	7.5	939.1	18.8	2.5	0.1	607.4	3.3
Public utilities....	1,570.5	4.7	66.3	1.0	123.0	2.4	10.5	0.3	1,370.7	7.4
Transport...........	675.6	2.0	221.8	3.4	68.0	1.4	18.5	0.6	367.3	2.0
Banking.............	587.5	1.8	140.2	2.1	133.5	2.7	27.5	0.9	286.3	1.6
Tourism.............	448.4	1.4	43.7	0.7	127.0	2.5	18.0	0.6	259.7	1.4
Others..............	1,062.6	3.2	110.3	1.7	194.0	3.9	23.0	0.7	735.3	4.0
TOTAL	33,134.6	100.0	6,591.1	100.0	4,991.5	100.0	3,102.7	100.0	18,449.3	100.0

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on Organisation for Economic Co-operation and Development, Stock of Private Direct Investments by DAC Countries in Developing Countries, end 1967 (Paris, 1972).

a/ Industrial sectors are arranged in descending order of value of stock of foreign direct investment in developing regions.

b/ Including developing countries of Oceania.

c/ Including the Caribbean region.

Table 31. Developing Middle East: stock of foreign direct investment from Development Assistance Committee countries, by sector and country of origin, end 1967

(Millions of dollars and percentage)

Sector	DAC total (millions of dollars)	Sectoral percentage of total	All countries	Distribution by country of origin a/ (percentage) United States	United Kingdom	France	Netherlands	Canada	Federal Republic of Germany	Japan	Italy	Other b/
Petroleum..........	2,776.4	89.5	100.0	57.9	27.4	4.9	6.1	0.1	-	2.9	0.7	-
Production.......	1,470.0	47.4	100.0	54.4	28.7	5.6	5.9	-	-	4.4	1.0	-
Mining and smelting	6.0	0.2	100.0	50.0	-	50.0	-	-	-	-	-	-
Agriculture........	2.5	0.1	100.0	-	100.0	-	-	-	-	-	-	-
Manufacturing......	190.3	6.1	100.0	49.1	21.5	6.3	2.6	0.5	10.0	2.6	2.2	5.2
Trade..............	30.0	1.0	100.0	61.7	25.0	3.3	-	-	6.0	-	3.3	0.7
Public utilities...	10.5	0.3	100.0	66.7	33.3	-	-	-	-	-	-	-
Transport..........	18.5	0.6	100.0	37.8	43.2	16.2	-	-	2.7	-	-	0.1
Banking............	27.5	0.9	100.0	30.9	45.5	10.9	3.6	-	5.5	-	1.8	1.8
Tourism............	18.0	0.6	100.0	88.8	5.6	5.6	-	-	-	-	-	-
Other..............	23.0	0.7	100.0	78.3	21.7	-	-	-	-	-	-	-
TOTAL	3,102.7	100.0	100.0	57.3	27.1	5.2	5.6	0.2	0.7	2.7	0.8	0.4

Source: See table 30.

a/ Countries are arranged from left to right in descending order of total stock of foreign direct investment in developing countries.

b/ Includes Australia, Austria, Belgium, Denmark, Norway, Portugal, Sweden and Switzerland.

Table 32. Developing western hemisphere:[a] stock of foreign direct investment by Development Assistance Committee countries, by sector and country of origin, end 1967

(Millions of dollars and percentage)

Sector	DAC total (millions of dollars)	Sectoral percentage of total	All countries	Distribution by country of origin [b] (percentage)								
				United States	United Kingdom	France	Netherlands	Canada	Federal Republic of Germany	Japan	Italy	Other [c]
Petroleum..........	4,485.5	24.3	100.0	74.2	11.0	-	14.2	0.6	-	-	-	-
Production.......	2,628.0	14.2	100.0	78.2	9.6	-	12.0	0.2	-	-	-	-
Mining and smelting	2,016.1	10.9	100.0	85.3	0.5	1.0	1.2	10.0	0.3	1.6	-	0.1
Agriculture........	607.4	3.3	100.0	62.9	33.3	2.2	0.2	0.2	0.3	0.7	0.2	-
Manufacturing......	6,652.7	36.1	100.0	54.5	7.3	5.7	3.3	2.4	11.0	4.4	5.5	5.9
Trade..............	1,668.3	9.0	100.0	77.1	10.6	1.7	1.3	1.1	1.7	4.3	0.5	1.7
Public utilities...	1,370.7	7.4	100.0	35.7	3.0	0.1	1.6	51.5	-	-	0.1	8.0
Transport..........	367.3	2.0	100.0	62.9	22.1	0.3	-	14.4	0.3	-	-	-
Banking............	286.3	1.6	100.0	46.8	17.7	6.4	4.5	8.5	4.4	1.6	5.2	4.9
Tourism............	259.7	1.4	100.0	58.5	25.8	2.3	0.4	12.9	-	-	-	0.1
Other..............	735.3	4.0	100.0	57.9	11.5	0.3	0.4	16.3	1.2	-	-	12.4
TOTAL	18,449.3	100.0	100.0	63.8	9.2	2.5	5.1	7.3	4.3	2.2	2.1	3.5

Source: See table 30.

a/ Including the Caribbean region.

b/ Countries are arranged from left to right in descending order of total stock of foreign direct investment in developing countries.

c/ Includes Australia, Austria, Belgium, Denmark, Norway, Portugal, Sweden and Switzerland.

Table 33. Developing Africa: stock of foreign direct investment from Development Assistance Committee countries, by sector and country of origin, end 1967

(Millions of dollars and percentage)

Sector	DAC total (millions of dollars)	Sectoral percentage of total	Distribution by country of origin a/ (percentage): All countries	United States	United Kingdom	France	Netherlands	Canada	Federal Republic of Germany	Japan	Italy	Other b/
Petroleum..........	2,597.6	39.4	100.0	32.8	20.2	27.3	10.5	-	1.6	-	6.5	1.1
Production.......	1,947.7	29.6	100.0	33.7	20.2	29.5	10.7	-	2.1	-	3.4	0.4
Mining and smelting	1,279.8	19.4	100.0	20.9	36.1	22.2	-	0.8	3.5	0.0	1.8	14.7
Agriculture........	496.8	7.5	100.0	10.2	18.1	51.5	4.1	-	1.1	0.2	0.6	14.2
Manufacturing......	1,236.4	18.8	100.0	9.7	31.9	21.8	2.1	3.8	3.3	1.0	3.4	23.0
Trade.............	398.2	6.0	100.0	10.7	56.6	17.7	0.8	-	1.1	-	1.0	12.1
Public utilities...	66.3	1.0	100.0	-	-	77.4	-	-	-	-	-	22.6
Transport..........	221.8	3.4	100.0	0.5	45.9	17.6	0.5	-	-	-	1.8	33.7
Banking............	140.2	2.1	100.0	8.9	51.4	25.0	0.4	-	0.4	-	2.5	11.4
Tourism............	43.7	0.7	100.0	57.2	11.4	27.5	1.1	-	2.8	-	-	-
Other..............	110.3	1.7	100.0	0.9	90.5	4.5	-	-	-	-	0.9	3.2
TOTAL	6,591.1	100.0	100.0	20.8	30.0	26.3	4.9	0.9	2.1	0.2	3.8	11.0

Source: See table 31.

a/ Countries are arranged from left to right in descending order of total stock of foreign direct investment in developing countries.

b/ Includes Australia, Austria, Belgium, Denmark, Norway, Portugal, Sweden and Switzerland.

Table 34. Developing Asia:[a] stock of foreign direct investment from Development Assistance Committee countries, by sector and country of origin, end 1967

(Millions of dollars and percentage)

Sector	DAC total (millions of dollars)	Sectoral percentage of total	All countries	Distribution by country of origin b/ (percentage) United States	United Kingdom	France	Netherlands	Canada	Federal Republic of Germany	Japan	Italy	Other[c]
Petroleum..........	1,102.3	22.1	100.0	54.3	24.0	0.5	20.1	0.2	-	-	-	0.9
Production.......	251.0	5.0	100.0	48.2	25.9	-	21.1	0.8	-	-	-	4.0
Mining and smelting	252.5	5.1	100.0	19.0	30.9	30.3	-	4.8	-	9.1	-	5.9
Agriculture........	939.1	18.8	100.0	6.0	75.0	12.7	0.1	0.2	-	2.0	-	4.0
Manufacturing......	1,547.7	31.0	100.0	34.1	37.6	4.4	1.6	2.1	3.8	7.8	1.8	6.8
Trade.............	504.4	10.1	100.0	44.7	42.4	4.2	0.5	-	0.9	3.0	0.2	4.1
Public utilities...	123.0	2.4	100.0	31.7	49.6	17.1	-	-	-	-	-	1.6
Transport..........	68.0	1.4	100.0	25.0	45.6	11.8	8.8	-	-	1.5	-	7.3
Banking............	133.5	2.7	100.0	33.3	50.6	4.1	0.7	-	1.1	5.6	-	4.6
Tourism............	127.0	2.5	100.0	60.2	27.2	5.1	-	-	1.6	5.1	-	0.8
Other..............	194.0	3.9	100.0	73.7	19.1	-	-	-	0.5	1.5	0.5	4.7
TOTAL	4,991.5	100.0	100.0	35.6	41.5	6.6	5.1	1.0	1.4	3.9	0.6	4.3

Source: See table 31.

a/ Including developing countries of Oceania.

b/ Countries are arranged from left to right in descending order of total stock of foreign direct investment in developing countries.

c/ Includes Australia, Austria, Belgium, Denmark, Norway, Portugal, Sweden and Switzerland.

Table 35. Developing countries: distribution among Development Assistance Committee countries of stock of foreign direct investment, end 1967

(Millions of dollars and percentage)

Country and region a/	DAC total (millions of dollars)	Percentage share in total investment in region	Share in total investment by DAC countries (percentage): Country accounting for 50 per cent or more	Other main investing countries		
All developing countries	33,134.6		US..... 50.4	UK......19.9	France....8.1	Neth......5.1
Africa	6,591.1	100.0	-	UK......30.0	France...26.3	US.......20.8 Belgium.. 7.3
Nigeria........	1,108.8	16.8	UK..... 53.8	US......16.4	Neth. ...14.5	
Algeria........	702.5	10.7	France. 71.7	US......16.4		
Libyan Arab Republic......	578.2	8.8	US..... 77.7	UK......10.9		
Zaire (Congo-Kinshasa).....	480.7	7.3	Belgium 87.8	Neth.... 4.4		
Zambia.........	421.1	6.4	UK..... 79.6	US......19.2		
Liberia........	299.5	4.5	US..... 57.8	Sweden..21.7		
Gabon..........	265.2	4.0	France. 73.4	US......10.9		
Ghana..........	260.4	4.0	UK..... 59.1	US......24.6		
Rhodesia.......	237.3	3.6	UK..... 88.3	US...... 4.2		
Ivory Coast....	201.6	3.1	France. 80.0	US...... 3.7		
Angola.........	193.3	2.9	-	UK......48.6	Portugal.28.5	US.......17.6
Morocco........	179.3	2.7	-	France..45.2	US.......19.5	Italy....15.6
Kenya..........	172.1	2.6	UK..... 78.8	US...... 8.7		
Senegal........	153.8	2.3	France. 87.4	US...... 4.4		
Cameroon.......	149.5	2.3	France. 75.1	UK......11.9		
Tunisia........	135.1	2.0	-	France..39.2	Italy....28.5	Sweden...10.4 US....... 9.6
Mozambique.....	102.2	1.6	UK..... 50.1	Port. ..37.2		
Mauritania.....	101.1	1.5	France. 68.8	UK......16.2		
Guinea.........	92.9	1.4	-	US......38.5	France...23.1	Switz....20.5
Congo (Congo-Brazzaville)..	90.1	1.4	France. 83.4	Belgium 6.1		
Malagasy Rep...	72.4	1.1	France. 76.5	US...... 8.3		
Sierra Leone...	68.1	1.0	UK..... 84.4	US......13.2		
United Republic of Tanzania...	60.4	0.9	-	UK......46.7	Italy....18.2	Denmark..12.9 FRG...... 5.6
United Arab Republic......	58.0	0.9	US..... 70.7	Italy...26.7		
Ethiopia.......	50.3	0.8	-	France..43.7	US.......23.9	UK.......15.9
Uganda.........	48.0	0.7	-	UK......48.1	Canada...31.3	US....... 4.2
Togo...........	42.4	0.6	France. 56.6	US......30.7		
Sudan..........	36.7	0.6	UK..... 74.9	Neth. ..13.6		

Table 35. Developing countries: distribution among Development Assistance Committee countries of stock of foreign direct investment, end 1967 (continued)

(Millions of dollars and percentage)

Country and region a/	DAC total (millions of dollars)	Percentage share in total investment in region	Share in total investment by DAC countries (percentage): Country accounting for 50 per cent or more	Other main investing countries		
Africa (continued)						
Central African Republic.......	36.6	0.6	France. 91.8	US..... 4.1		
Malawi..........	30.0	0.5	UK..... 92.7	US..... 6.7		
Swaziland.......	29.0	0.4	UK..... 96.6	US..... 3.4		
Niger...........	23.3	0.4	France. 95.7	US..... 2.1		
Dahomey.........	17.9	0.3	France. 57.0	Italy.. 25.7		
Chad............	17.8	0.3	France. 80.4	Neth... 8.4		
Upper Volta.....	16.2	0.2	France. 75.3	UK..... 12.3		
Rwanda..........	15.2	0.2	Belgium 86.8	Italy.. 6.6		
Burundi.........	14.2	0.2	Belgium 84.5	Canada. 7.1		
Somalia.........	12.6	0.2	Italy.. 83.3	US..... 7.9		
Mali............	6.5	0.1	France. 76.9	US..... 7.7		
Territory of the Afars and the Issars (French Somalia).......	5.5	0.1	France. 90.9	Neth... 5.5		
Botswana........	2.5	0.0	UK..... 88.0	Neth... 12.0		
Gambia..........	2.3	0.0	UK..... 87.0	US..... 4.3		
Lesotho.........	0.5	0.0	UK..... 60.0	US..... 20.0		
Asia	4,991.5	100.0		UK..... 41.5	US.......35.6	France... 6.6
India...........	1,308.7	26.2	UK..... 64.6	US..... 20.6		
Philippines.....	722.7	14.5	US..... 88.4	Neth... 3.8		
Malaysia........	679.4	13.6	UK..... 74.3	US..... 11.9		
Pakistan........	346.0	6.9	UK..... 59.5	US..... 22.3		
Hong Kong.......	285.1	5.7	-	UK..... 41.4	US...... 38.6	
Indonesia.......	254.0	5.1	US..... 73.2	France. 9.4		
Thailand........	213.7	4.3	-	US..... 40.2	UK...... 20.1	Japan... 19.7
Singapore.......	183.3	3.7	-	UK..... 33.8	US...... 33.3	Neth.... 23.5
Papua-New Guinea	161.5	3.2	-	Australia... 48.3	UK...... 34.1	
Viet-Nam, Rep.of	152.1	3.0	France. 65.7	US..... 27.0		
Sri Lanka.......	144.1	2.9	UK..... 95.1	US..... 1.4		
Brunei..........	85.5	1.7	Neth... 56.1	UK..... 43.9		
Khmer Republic.	83.9	1.7	France. 88.2	Belgium 5.9		
New Caledonia...	81.0	1.6	France. 91.4	US..... 7.4		
Korea, Rep. of..	78.0	1.6	US..... 92.3	Japan.. 4.2		

Table 35. Developing countries: distribution among Development Assistance Committee countries of stock of foreign direct investment, end 1967 (continued)

(Millions of dollars and percentage)

Country and region a/	DAC total (millions of dollars)	Percentage share in total investment in region	Share in total investment by DAC countries (percentage): Country accounting for 50 per cent or more	Other main investing countries		
Asia (continued)						
Ryukyu..........	18.0	0.4	US..... 66.7	Japan.. 33.3		
Afghanistan.....	12.0	0.2	US..... 54.2	FRG.... 33.3		
French Polynesia	11.0	0.2	France. 72.7	US..... 27.3		
Burma...........	9.7	0.2	UK..... 92.8	Denmark 7.2		
Laos............	8.3	0.2	-	France 36.6	US...... 36.6	Japan....12.2
Nepal...........	4.0	0.1	US..... 50.0	UK..... 35.0		
Bhutan..........	-		-	-		
Other...........	149.5	3.0	US..... 70.9	Japan.. 18.7		
Middle East......	3,102.7	100.0	US..... 57.3	UK..... 27.1		
Saudi Arabia....	866.0	27.9	US..... 90.4	Japan.. 9.2		
Iran............	713.5	23.0	-	US..... 45.1	UK...... 35.1	
Kuwait..........	620.7	20.0	US..... 54.4	UK..... 45.4		
Iraq............	186.7	6.0	-	UK..... 37.5	France.. 23.6	US...... 23.6
Bahrain.........	122.0	3.9	US..... 91.8	UK..... 8.2		
Israel..........	108.7	3.5	US..... 59.8	UK..... 14.7	Neth.... 8.3	
Abu Dhabi.......	102.5	3.3	UK..... 51.2	France. 26.3	US...... 13.7	
Lebanon.........	89.9	2.9	US..... 54.5	France. 31.7	UK...... 14.3	
Qatar...........	89.0	2.9	-	UK..... 40.5	Neth.... 33.7	US...... 12.9
Muscat and Oman.	70.0	2.3	Neth... 52.1	UK..... 37.9		
Southern Yemen and Aden.......	68.0	2.2	UK.... 100.0			
Syrian Arab Republic.......	35.2	1.1	US..... 56.8	UK..... 19.9	France.. 14.2	
Jordan..........	24.0	0.8	US..... 75.0	UK..... 20.0		
Dubai...........	6.5	0.2	-	US..... 46.2	UK...... 38.4	
Western hemisphere..........	18,449.3	100.0	US..... 63.8	UK..... 9.2	Canada.. 7.3	
Brazil..........	3,727.9	20.2	-	US..... 35.6	Canada.. 16.8	France... 7.1
					FRG..... 13.9	Japan.... 5.7
						UK....... 4.8
Venezuela.......	3,495.0	18.9	US..... 73.1	UK..... 10.1		
Argentina.......	1,821.4	9.9	US..... 55.8	Italy.. 11.3	UK...... 9.5	France... 5.7
Mexico..........	1,786.5	9.7	US..... 76.4	UK..... 6.5		
West Indies b/ .	1,109.7	6.0	-	US..... 42.2	UK...... 34.2	Canada...20.4

Table 35. Developing countries: distribution among Development Assistance Committee countries of stock of foreign direct investment, end 1967 (continued)

(Millions of dollars and percentage)

Country and region a/	DAC total (millions of dollars)	Percentage share in total investment in region	Share in total investment by DAC countries (percentage): Country accounting for 50 per cent or more	Other main investing countries		
Western hemisphere (continued)						
Chile	963.1	5.2	US..... 91.3	Japan... 3.6		
Panama	830.3	4.5	US..... 90.8	FRG..... 1.5		
Peru	782.4	4.2	US..... 84.4	Japan... 3.8		
Colombia	727.7	3.9	US..... 86.2	Neth.... 3.5		
Trinidad and Tobago	686.8	3.7	US..... 75.8	UK......17.8		
Jamaica	670.9	3.6	US..... 70.7	Canada..18.3		
Netherlands-Antilles	381.5	2.1	-	US..... 36.2	Neth.... 26.9	UK.......16.8
Guyana	189.0	1.0	-	Canada. 41.0	UK...... 34.1	US.......24.6
Honduras	168.8	0.9	US..... 97.7	UK..... 1.4		
Dominican Republic	157.9	0.9	US..... 81.1	Canada. 17.1		
Guatemala	146.5	0.8	US..... 84.4	Canada. 6.1		
Bolivia	143.5	0.8	US..... 82.9	UK..... 8.4		
Costa Rica	135.5	0.7	US..... 89.3	UK..... 5.9		
Surinam	99.6	0.5	US..... 56.7	Neth... 42.8		
Ecuador	82.0	0.4	US..... 58.5	UK..... 26.8		
El Salvador	77.5	0.4	US..... 58.1	Canada. 16.8	Japan.... 9.0	
Nicaragua	72.8	0.4	US..... 63.9	Canada. 27.5		
Uruguay	60.1	0.3	US..... 71.5	FRG.... 9.7		
Haiti	36.2	0.2	US..... 56.6	France. 19.3	Canada...17.1	
Paraguay	34.7	0.2	US..... 57.6	UK..... 29.1		
British Honduras	28.5	0.2	UK..... 70.2	US..... 17.5		
French Antilles	26.5	0.1	France. 71.7	US..... 18.9		
French Guyana	7.0	0.0	France 100.0			

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on Organisation for Economic Co-operation and Development, Stock of Private Direct Investments by DAC Countries in Developing Countries, end 1967 (Paris, 1972).

a/ Countries are arranged within regions in descending order of share in total investment in region by DAC countries.

b/ Includes Leeward Islands, Windward Islands, Bahamas, Barbados and Bermuda.

Table 36. 187 United States multinational corporations: method of entry into host country

(Number of affiliates and percentage)

	Total affiliates			Acquisitions[a]			Acquisitions as percentage of total		
	Pre-1946	1946-1957	1958-1967	Pre-1946	1946-1957	1958-1967	Pre-1946	1946-1957	1958-1967
Developed market economies									
Canada	537	414	639	158	187	370	29.4	45.2	57.9
Western Europe	1,105	693	2,754	256	194	1,193	23.2	28.0	43.3
Southern hemisphere[b]	152	185	511	30	57	240	19.7	30.8	47.0
Japan	17	43	198	5	17	53	29.4	39.5	26.8
Developing countries									
Western hemisphere	508	735	1,309	110	157	477	21.7	21.4	36.4
Asia and Africa[c]	103	176	491	17	23	109	16.5	13.1	22.2
TOTAL	2,422	2,246	5,898	576	635	2,442	23.8	28.3	41.4

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on James W. Vaupel and Joan P. Curhan, *The Making of Multinational Enterprise* (Boston, 1969).

a/ Acquisition refers to purchases by United States corporations of domestic companies previously under local control.

b/ Including Australia, New Zealand, Republic of South Africa, Rhodesia.

c/ Excluding Rhodesia.

Table 37. United States and United Kingdom: average returns[a] on book value of foreign direct investment by area and investing country

(Percentage)

Area of investment	United States Average (1965-1968) All sectors	United States Average (1965-1968) Excluding petroleum	United Kingdom Average (1965-1968) Excluding petroleum
Developed market economies	7.9	9.6	9.3
United States....................	-	-	8.6
Canada...........................	8.0	8.6	11.3
Europe[b]	7.1	10.0	7.9
Japan............................	14.2	20.2	...
Southern hemisphere..............	9.7	12.0	9.5
Developing countries	17.5	11.0	9.8
Western hemisphere...............	12.1	11.1	8.7
Asia.............................	34.7	11.7	
Africa...........................	22.3	7.7	10.4
European developing countries[c]..	...	...	
Unallocated......................	8.5	11.6	...
TOTAL	10.7	10.0	9.5

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on United States Department of Commerce, Survey of Current Business, various issues; United Kingdom Government Statistical Service, Business Monitor, M4, Overseas Transactions, 1969 (London, 1971).

a/ Adjusted earnings (branch earnings + dividends + interest + reinvested earnings) over book value at year end.

b/ United States data include all European countries, other than Eastern Europe. United Kingdom data include European developed countries as defined by the Organisation for Economic Co-operation and Development.

c/ As defined by the Organisation for Economic Co-operation and Development.

Table 38. United States and United Kingdom: royalty and fee receipts and payments, 1966, 1968, 1970, 1971

(Millions of dollars)

Country	Affiliate firms (direct investment)				Non-affiliate firms				Total			
	1966	1968	1970	1971	1966	1968	1970	1971	1966	1968	1970	1971
<u>United States</u>												
Receipts......	1,030	1,246	1,620	1,874	353	461	600	695	1,383	1,707	2,220	2,569
Payments......	64	80	111	91	76	107	119	125	140	187	230	216
Balance.....	966	1,166	1,509	1,783	277	354	481	570	1,243	1,520	1,990	2,353
<u>United Kingdom</u>												
Receipts......	54	63	86	...	101	110	133	...	155	172	218	...
	(12)[a]	(12)	(20)	...	(27)	(36)	(40)	...	(38)	(48)	(60)	...
Payments......	73	99	136	...	51	59	68	...	124	156	205	...
	(56)[a]	(78)	(111)	...	(31)	(30)	(38)	...	(87)	(108)	(145)	...
Balance.....	-19	-36	-50	...	50	51	65	...	31	16	13	...

<u>Source</u>: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on United States Department of Commerce, <u>Survey of Current Business</u>, various issues; United Kingdom Department of Trade and Industry, <u>Trade and Industry</u> (formerly <u>Board of Trade Journal</u>), various issues.

<u>a/</u> In parentheses, receipts from and payments to the United States.

Table 39. United States multinational corporations: research and development expenditures in manufacturing, home country and abroad, 1966

(Millions of dollars and percentage)

Item	Expenditures			
	Total	Home country	Abroad	Percentage of total spent abroad
All manufacturing...........	8,124	7,598	526	6
Food products.............	154	136	18	12
Paper and allied products.	67	64	3	4
Chemicals.................	1,332	1,258	74	6
Rubber products...........	131	127	4	3
Primary and fabricated metals..................	322	312	10	3
Non-electrical machinery..	833	743	90	11
Electrical machinery......	1,917	1,814	103	5
Transportation equipment..	2,671	2,537	134	5
Textiles and apparel......	29	29	-	-
Lumber, wood and furniture	86	25	61	71
Printing and publishing...	17	17	-	-
Stone, clay and glass.....	107	103	4	4
Instruments...............	393	372	21	5
Other.....................	65	61	4	6

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on United States Senate, Committee on Finance, Implications of Multinational Firms for World Trade and Investment and for United States Trade and Labor (Washington, D.C., 1973).

Table 40. Selected developing countries: payments of royalties and fees and their relationship to gross domestic product and to export earnings

(Millions of dollars and percentage)

Country	Year	Payments of royalties and fees a/ (millions of dollars)	Share of payments: Gross domestic product (percentage)	Share of payments: Exports (percentage)
Argentina.............	1969	127.7	0.72	7.9
Brazil................	1966-1968 b/	59.6	0.26	3.4
Colombia..............	1966	26.7	0.50	5.3
Mexico................	1968	200.0	0.76	15.9
Nigeria...............	1965	33.8	0.78	4.2
Sri Lanka.............	1970	9.3	0.51 c/	2.9 c/
TOTAL, above and non-weighted average		457.1	0.68	7.3

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on United Nations Conference on Trade and Development, Transfer of Technology (TD/106), November 1971.

a/ Includes payments by the private sector only for patents, licenses, know-how, trademarks and management and other technical services.

b/ Annual average.

c/ 1969.

Table 41. United States manufacturing and mining affiliates in Central and South America: local sales and exports, 1965, 1968

(Millions of dollars and percentage)

	Manufacturing affiliates		Mining affiliates	
	1965	1968	1965	1968
Total sales (millions of dollars)...	5,526	7,966	1,345	1,814
Total exports (millions of dollars).	415	753	1,105	1,497
Ratio of exports to sales (percentage)......................	7.5	9.4	82.2	82.5
Ratio of exports to United States to total exports of affiliates (percentage)......................	24.3	28.1	48.4	46.4

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on United States, Department of Commerce, Survey of Current Business, October 1970.

Table 42. Selected developing countries: current inflow of foreign direct investment and outflow of income on accumulated past direct investment, a/ by region, 1965-1970

(Millions of dollars)

Region	1965	1966	1967	1968	1969	1970
Africa, total						
A. Inflow.............	182.2 b/	163.7	241.5	201.6	235.5	270.7
B. Outflow............	380.8 b/	718.8	708.6	963.7	924.3	996.2
C. Balance............	-198.6	-555.1	-467.1	-762.1	-688.8	-725.5
Non-oil producing countries c/						
A. Inflow...........	133.5	74.7	61.5	53.6	46.5	42.7
B. Outflow..........	49.3	53.8	56.6	57.7	56.3	60.2
C. Balance..........	84.2	20.9	4.9	-4.1	-9.8	-17.5
Oil-producing countries d/						
A. Inflow...........	48.7 b/	89.0	180.0	148.0	189.0	228.0
B. Outflow..........	331.5 b/	665.0	652.0	906.0	868.0	936.0
C. Balance..........	-282.8	-576.0	-472.0	-758.0	-679.0	-708.0
Western hemisphere, total						
A. Inflow.............	723.3	780.5	647.5	1,011.4	1,088.6	1,141.9
B. Outflow............	1,437.9	1,752.7	1,793.4	2,021.4	2,093.0	1,943.7
C. Balance............	-714.6	-972.2	-1,145.9	-1,010.0	-1,004.4	-801.8
Non-oil producing countries e/						
A. Inflow...........	642.3	671.5	567.5	827.4	964.6	1,067.9
B. Outflow..........	722.9	1,043.7	1,119.4	1,291.4	1,418.0	1,382.7
C. Balance..........	-80.6	-372.2	-551.9	-464.0	-453.4	-314.8
Oil-producing countries						
A. Inflow...........	81.0	109.0	80.0	184.0	124.0	74.0
B. Outflow..........	715.0	709.0	674.0	730.0	675.0	561.0
C. Balance..........	-634.0	-600.0	-594.0	-546.0	-551.0	-487.0
Asia and West Asia, total						
A. Inflow.............	436.9	271.2	185.0	159.0	189.5	200.1
B. Outflow............	1,367.4	1,592.4	1,744.2	1,997.5	2,138.5	2,401.9
C. Balance............	-930.5	-1,321.2	-1,559.2	-1,838.5	-1,949.0	-2,201.8

Table 42. Selected developing countries: current inflow of foreign direct investment and outflow of income on accumulated past direct investment, a/ by region, 1965-1970 (continued)

(Millions of dollars)

Region	1965	1966	1967	1968	1969	1970
Asia and West Asia (continued)						
Non-oil producing countries g/						
A. Inflow...........	131.0	95.2	60.0	94.0	116.5	180.1
B. Outflow..........	168.7	150.4	204.2	239.5	246.5	235.9
C. Balance..........	-37.7	-55.2	-144.2	-145.5	-130.0	-55.8
Oil-producing countries h/						
A. Inflow...........	305.9	176.0	125.0	65.0	73.0	20.0
B. Outflow..........	1,198.7	1,442.0	1,540.0	1,758.0	1,892.0	2,166.0
C. Balance..........	-892.8	-1,266.0	-1,415.0	-1,693.0	-1,819.0	-2,146.0
Selected developing countries, total						
A. Inflow.............	1,342.4 b/	1,215.4	1,074.0	1,372.0	1,513.6	1,612.7
B. Outflow............	3,186.1 b/	4,063.9	4,246.2	4,982.6	5,155.8	5,341.8
C. Balance............	-1,843.7	-2,848.5	-3,172.2	-3,610.6	-3,642.2	-3,729.1
Non-oil producing countries, total						
A. Inflow...........	906.8	841.4	689.0	975.0	1,127.6	1,290.7
B. Outflow..........	940.9	1,247.9	1,380.2	1,588.6	1,720.8	1,678.8
C. Balance..........	-34.1	-406.5	-691.2	-613.6	-593.2	-388.1
Oil-producing countries, total						
A. Inflow...........	435.6 b/	374.0	385.0	397.0	386.0	322.0
B. Outflow..........	2,245.2 b/	2,816.0	2,866.0	3,394.0	3,435.0	3,663.0
C. Balance..........	-1,809.6	-2,442.0	-2,481.0	-2,997.0	-3,049.0	-3,341.0

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on International Monetary Fund, Balance of Payments Yearbook (Washington, D.C.).

a/ All statistics - inflows and outflows - are expressed in gross figures.
b/ Excluding Algeria.
c/ Ethiopia, Ivory Coast, Malawi, Mauritius, Sierra Leone, Sudan, Tunisia.
d/ Algeria, Libyan Arab Republic, Nigeria.

Foot-notes to table 42 (continued)

e/ Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Surinam, Trinidad and Tobago.

f/ Venezuela.

g/ Indonesia, Israel, Lebanon, Philippines, Sri Lanka, Thailand, Republic of Viet-Nam.

h/ Iran, Iraq, Saudi Arabia.

Table 43. Selected developing countries: occurrence of clauses restricting exports in samples of foreign direct investment agreements

(Number and percentage)

Country	Number of agreements in the sample	Number of agreements containing		
		Clauses limiting exports	Clauses prohibiting exports	Percentage of agreements including some restriction on exports
Bolivia a/	21	-	19	90.4
Colombia b/	58	2	39	70.6
India c/	737	235	114	47.3
Peru d/	26	6	19	96.1
Philippines e/	182	24	22	25.2

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on Junta del Acuerdo de Cartagena, C. Vaitsos, The Process of Commercialization of Technology in the Andean Pact (Lima, October 1971) and United Nations Conference on Trade and Development, Restrictive Business Practices (TD/122/Supp.1), pp. 42-46.

a/ Sample includes foreign wholly-owned subsidiaries in pharmaceutical, food and beverage and other non-specified industries, 1968-1971.

b/ Sample includes foreign wholly-owned subsidiaries and joint ventures in pharmaceutical and chemical industries, 1968-1971.

c/ Sample includes agreements with subsidiaries and foreign minority joint ventures in effect in March 1969.

d/ Sample includes foreign subsidiaries in pharmaceutical and other non-specified industries, 1968-1971.

e/ Sample includes agreements with subsidiaries and foreign minority joint ventures in effect in 1970.

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