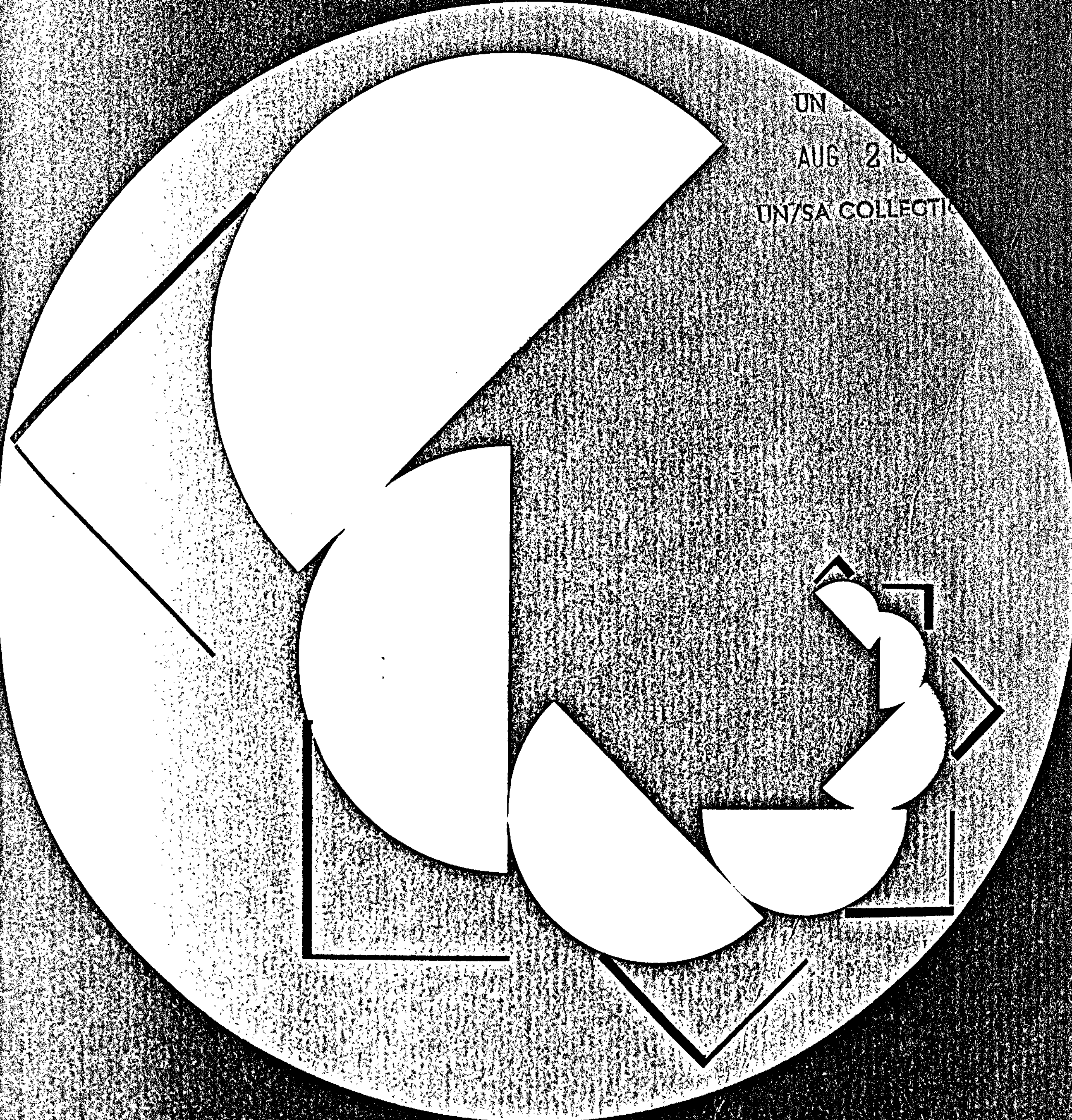
Summary of the Hearings Before the Group of Eminent Persons to Study the Impact of Multinational Corporations on Development and on International Relations



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First session, United Nations Headquarters, 11-13 September 1973

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PREFACE

The Economic and Social Council in resolution 1721 (LIII) 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 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".

In response to that resolution and in order to facilitate the work of the Group of Eminent Persons, the Secretary-General invited leading personalities from Governments, business, trade unions, special and public interest groups and universities to present their views before the Group. The hearings were held during the first two sessions of the Group in New York (4 to 14 September 1973) and Geneva (1 to 16 November 1973).

This publication contains summaries of the oral and written statements of the persons appearing before the Group and their replies to questions by members of the Group. It is not a verbatim record. Most of the summaries were prepared by the speakers; the remainder were prepared by the Secretariat on the basis of the written statements submitted by the witnesses at the time of their testimony and the transcripts of the hearings.

The hearings, which constituted a novel approach for the United Nations, were described by the Group of Eminent Persons in their report as "a most useful source of information, as well as a valuable occasion to test ideas".1/ The present document is published in the light of that opinion, in the belief that it will be of assistance to Governments and to the public in the further elucidation of this complicated issue.

1/ Report of the Group of Eminent Persons to Study the Impact of Multinational Corporations on the Development Process and on International Relations (United Nations publication, Sales No. E.74.II.A.5).

PART ONE

FIRST SESSION

(United Nations Headquarters, 11-13 September 1973)

Jack BEHRMAN
Graduate School of Business Administration
University of North Carolina

Summary of written and oral statement

The fundamental issue in the relationship of the multinational enterprise to Governments is control. The issue of ownership and ownership forms (i.e. joint ventures) is a false issue. If the problem is symbolic and ownership is a symbol of control, then ownership may be important. But Governments have many ways of exercising control other than ownership. Similarly, the discussion of "Good Corporate Citizenship" is a false issue. Very few multinational enterprises exercise "bad citizenship". The crux of the matter is "who makes the decisions and by what criteria".

Problems exist in this relationship because the multinational enterprise follows an inexorable logic: the expansion of national corporate activities in the international field. Thus, the multinational enterprise moves across the "world market" seeking the locus of production at least cost in order to survive, grow, and increase its market share. These activities will change only if Governments set up guidelines.

The tensions created by the spread of multinational enterprise cannot be resolved by facilitating its operations. Hence harmonization of national laws at the international level is a side issue, as are most proposals for "codes of good behaviour". Such approaches will make it easier for the corporation to carry out its inexorable logic.

Governments have followed a five-stage response to multinational enterprise: (1) They welcome foreign investment, seeking to use multinational enterprise for purposes of economic development; (2) They constrain it, seeking to ensure that it accords with domestic objectives in some cases; (3) They repel it, finding that it is too pervasive; (4) They decide what to do with it; and (5) They guide it by setting up appropriate institutions. Although most countries are still at the second or third stage, we are faced now with the problem of a decision.

The critical problem, then, is deciding what to do with the multinational enterprise and how to guide it. Unquestionably, this is a governmental task since Governments all over the world have been asked to accept increasing responsibilities in the economic and social fields.

To help Governments in their decisions regarding multinational enterprise, there is a basic need to classify and distinguish between the various forms of international business and their impacts. Not all international businesses are multinational enterprises and not all multinational enterprises have the same impact. Multinational banking, for instance, is quite different from the petroleum and extractive industries in its effects, or the service corporations, and should not be treated in the same way.

A prerequisite for determining these impacts is extensive communication among Governments, enterprises and labour groups, with a view to expressing and refining their objectives and the means of achieving them. But there is no sense in having a dialogue unless we know what the dialogue is about. There should first be a decision on what information is to be exchanged and for what purpose.

The method of achieving governmental goals will involve discrimination. After proper distinctions have been made between types of multinational enterprises, aggregate solutions will be found to be inappropriate and ineffective in meeting the tensions. Governments will clearly not wish to reject all foreign companies; But selectivity is necessary to achieve particular goals and hence discrimination will be required.

The required orientation is that of willingness by Governments to agree on means of sharing the benefits of international production among and between the advanced and developing countries. Such an attitude requires a restructuring of the international economic order along lines reflecting the shift in pre-eminence from international trade to international production, from market-based decisions to those of the multinational enterprise, and from the policy leadership of the United States to nations which do not have their policies rooted in classical economic theory.

This order would be based not on "multilateral, non-discriminatory trade and payments" as the basic principle of economic rules and conduct, but on selective discrimination, recognizing the inapplicability of the law of comparative advantage in a system where factors move readily, are under the direction of single large enterprises, and are constrained by both labour and Government.

This restructuring would use the various forms of international business to achieve the government-determined sharing of industrial and agri-business benefits and their distribution among countries so that all participated, so that efficiency was maintained, incomes were distributed equitably, and a sufficient autonomy remained among countries so that intergovernmental bargaining could be based on interdependence rather than dependence.

To achieve these goals would require a focusing on key sectors of industry and agri-business; the critical industries are the "mobile" industries, characterized primarily by the multinational enterprise--autos, electronics, petro-chemicals, chemicals, pharmaceuticals, appliances, office equipment, etc. These industries can move locations readily -- and are doing so -- through the movement of factors, causing adjustments in both home and host countries.

Institutionally, what is needed is an organization for international industrial integration to establish communication between Governments and business on the key sectors selected, and to counsel on the location and development of these industries over the world. Unstructured information-gathering, unrelated to any given concept of international economic order, is likely to be make-work. At present, it is clear that the past economic order is not acceptable and cannot provide the guidelines. Therefore, efforts at "harmonization" are either inadequate--based on past concepts of harmony--or too early, not having a new set of guidelines which provide the criteria of equity--e.g., in the distribution of revenue under tax harmonization or the distribution of technology under patent harmonization--or the guidelines for efficiency in use of resources, or the criteria for participation.

The primary result of this re-ordering would be the development of industrial policies--at the national, regional, and international levels. The last would have as its aim the integration of the world economy on the basis of decisions taken under guidelines enunciated by Governments but discussed with business and labour in order to determine the trade-offs necessary and obtain acceptance.

A major obstacle to the fulfilment of these objectives would be bureaucratic inefficiency, but this danger exists now in government, business, and labour. And trade-offs against efficiency will have to be considered in any event, with the redistribution of industrial activity. However, there is evidence that significant synergy exists between equity and efficiency, rather than a trade-off; the establishment of arrangements to achieve equity has raised efficiency both through more effective use of resources and higher labour productivity.

A remaining concern is that, though equity among countries may be achieved through distribution of industry, inadequate provision may be made for equity within countries in the distribution of income; additional efforts will have to be directed towards making certain that the lower income groups benefit directly by the process of international industrial integration.

Summary of replies to questions*

Question: How can equitable international relations be achieved under the system of discrimination that you advocate?

Reply: My comments were addressed to problems of international production, not problems of trade or monetary affairs. I advocate that Governments should discriminate among various multinational corporations. Thus I would not use GATT as an analogy or model for dealing with international investment.

Question: How can the system by which knowledge is created and distributed be changed? Is not such a change necessary so that, while incentives to produce knowledge will be retained, its distribution will be more equitable and more efficient and the technology produced be more appropriate to the needs of the people,especially of developing countries?

Reply: Trade is increasingly dominated by corporations involved in international production. As regards knowledge, it is not the patented knowledge that developing countries primarily need. Even if knowledge is made freely available, developing countries do not necessarily have the capacity to use it and often it is not appropriate to them. There is no incentive now, for instance, for multinational corporations to design small refineries or cement plants. But it would be possible to provide direct incentives to design specific technologies for specific countries. A study by the National Foundation of Science and the National Academy of Engineers in the United States discusses the extent to which multinational enterprises could be used as channels for the adaptation of technology and the generation of local technological bases.

* Questions were asked by Messrs. Deutsch, Dunning, Ivanov, Mansholt, Schaffner and Estrany y Gendre.

Question: What is the effect of the size of multinational enterprise on its efficiency? Is gigantism leading to adverse results?

Reply: There is no necessary correlation between size and efficiency. The real issue is: if there are efficiencies, who decides what efficiencies to pursue and on what criteria? But efficiency cannot be the only justification for the creation or existence of the enterprises and the policies we adopt towards them.

Question: Is it not ownership that confers control?

Reply: Ownership is not necessary for governmental control. Ownership by local investors may not change the behaviour of the affiliate of a multinational enterprise at all.

Question: Are not Governments ultimately responsible for the decision as to where multinational enterprise will go?

Reply: The multinational enterprises recognize that they will go where there is an opportunity in the market and will do what they are required to do as long as an opportunity exists. They want clarity of rules, stability of Government and economy, and some flexibility. With these they will go anywhere.

Question: How far is your recommendation of international industrial integration really viable?

Reply: Nothing can be done at the international level about multinational enterprise, unless there is a decision about the appropriate international order. There is need for initiatives on the process of industrialization itself and decisions as to how multinational enterprise can fit into this process. That is why I advocate an organization for international industrial integration. My conclusion is that multinational enterprise should be controlled at several levels, national, regional and international.

Edward M. BERSTEIN
President, EMB (Ltd.) Research Economists
Summary of the written and oral statement

The international monetary system has been subjected to recurrent crises in the past six years. These crises preceding the appreciation or depreciation of major currencies have all been characterized by very large outflows of capital. In the United States the short term capital outflows, including errors and omissions, reached $21 billion in 1971 and nearly $9 billion in the first quarter of 1973. The question is what has been the role of multinational corporations, especially those originating in the United States, in these massive movements of funds?

The financial transactions of the multinational corporations are reported in the balance of payments of the United States. The data reported by the multinational corporations on direct investment, remittances of earnings and liquid claims on foreign banking institutions indicate that to some extent their transfer of funds in 1971 and in the first quarter of 1973 were affected by anticipation of changes in exchange rates, but they were a very small part of the total outflow of funds from the United States in these periods before the devaluation of the dollar.

Multinational corporations are continuously engaged in exchange transactions and they are generally more aware than other business firms of the possibility of changes in exchange rates. Thus, they are likely to have made gradual adjustments in the currency composition of their assets and liabilities long before an exchange crisis. Multinational corporations have a bias that restrains their shifting among currencies in anticipation of changes in exchange rates. They normally wish to balance their assets and liabilities in different currencies in order to minimize the risk of loss. They also have a preference for having assets and liabilities denominated in their home currencies because their balance sheets and statements of profit and loss are reported in these currencies. Finally, the multinational corporations are sensitive to the charge that their currency transfers are a major cause of exchange crises. All this may explain why, during an exchange crisis, their transfers are relatively small.

While it is difficult to divide the transfers of multinational corporations into those that are made in the ordinary course of business and those that are made for exchange-rate reasons, a rough estimate can be made of the extent to which their transfers have changed in a period of crisis as compared with a pre-crisis period, after allowance is made for other factors which may have affected these transfers.

There was a large increase in United States direct investment in 1971, and even more in the first quarter of 1973, a large part of which was in the form of intercompany and branch accounts. In 1971, between one billion and one billion and a quarter of extra funds were channelled by the multinational corporations into their foreign affiliates. Foreign multinational corporations operating in the United States were more sensitive to the depreciation of the dollar; in the second quarter of 1971, affiliates of foreign multinational corporations, particularly Japanese, transferred more than $500 million from the United States. In 1971 there was also some delay in transfers of earnings, royalties and fees from United States affiliates abroad to the United States, as well as an increase in the outflow of liquid funds in the order of $500 million. But, on the whole, these transfers of multinational corporations are small compared to the balance of payments deficit of $30 billion. In the first quarter of 1973, the role of the multinational corporations was more important. Their direct investment in their subsidiaries increased by 1 billion more than might have been expected, although it represented only one tenth of the deficit in the balance of payments in the first quarter.

Although multinational corporations make only a small contribution to the reported net outflow of funds, it should be noted that their transactions can affect the exchange market even when they are not shown in the balance of payments at all.

In a sense United States banks operating abroad are multinational corporations, albeit different in orientation for manufacturing or extractive multinational corporations. Their role in transferring funds is significant and is to a large degree related to the exchange operations of the multinational corporation.

The transfer by United States banks of about 5 billion to their branches in 1971 was in repayment for their high cost Eurodollar borrowing in 1969. But their repayments to their foreign branches in the first quarter of 1973 (about $600 million) may have been related to anticipations of exchange-rate movements. United States banks also had a large reduction in their liabilities to other foreign commercial banks during the two dollar crises. Thus, foreign commercial banks withdrew $2 billion of their funds in the United States in 1971 and $1.3 billion in the first quarter of 1973. Anticipating the devaluation of the dollar, foreigners also received large credits from United States banks (approximately $3 billion in each period). These funds were used to meet withdrawals of Eurodollars, to make Eurodollar loans and to provide cover for forward exchange transactions. Although transfers of funds reported by United States banks were an important part of the outflow of funds during the crises, these transfers were undertaken on the initiative of their customers rather than on the initiative of the banks themselves. Many of these customers are likely to be the multinational corporations, either the parent companies or their branches and subsidiaries abroad.

Still, including the bank, reported transfers abroad represent a third of the total amount of net capital outflow in 1971 and a little more than a third in the first quarter of 1973. The rest cannot be identified and is included in the "errors and omissions". These amounted to $11 billion in

1971 and $4.2 billion in the first quarter of 1973. They were in fact the major component in the balance of payments deficit in these periods.

The transfers that comprise the errors or omissions cannot have been made by United States banks or multinational corporations because of very stringent reporting requirements. Rather, they were the result of unreported changes in the claims and liabilities of United States corporations— leads and lags in trade payments— and movements of liquid funds by wealthy individuals who either have no reporting obligations or failed to meet them. In a country where export and import trade together reach $130 million a year, and where the public holds hundreds of billions of dollars in liquid assets with no legal restriction on their transfer abroad, speculation against the dollar by leads and lags in payments or transfers to other currencies is relatively simple.

Furthermore, a considerable part of the pressure on the exchange market for the transfer of funds came from central banks of foreign countries, which, anticipating the devaluation of the dollar, converted large amounts from their reserves in dollars to other stronger currencies.

However, the real cause of the exchange crises was the failure of Governments to recognize the need for changes in exchange rates after it had become apparent to all.

The real loss to a country from an undervalued or overvalued currency is much greater than the profits and losses made by speculators and banks. Multinational corporations are business enterprises with an obligation to their owners to conduct their operations in the most profitable way consistent with the laws of their home and host countries. As they have assets and liabilities denominated in various currencies, they try to cover their liabilities in a currency that is expected to appreciate and to liquidate their claims in a currency that is expected to depreciate. After they have undertaken such defensive operations, their profits may be no greater than they would have been if the exchange rates had remained unaltered. It is unreasonable and fruitless to expect that multinational corporations should adopt a completely passive attitude towards uneconomic rates of exchange.

There will be neither order nor stability in the international monetary system until Governments are willing to make prompt adjustments of persistent deficits and surpluses in their balance of payments. Even then, the chronic inflation will encourage large movements of funds in anticipation of changes in exchange rates. So long as the large trading countries have inflation, there can be no way of avoiding disorder in exchange markets. There are only more or less tolerable alternatives for minimizing the disorder.

Summary of replies to questions *

<u>Question</u>: Is it true that capital movements have been left unregulated in order not to affect the multinational corporations' freedom of action? Do you think such freedom could create instability in exchange rates?

<u>Reply</u>: The United States-owned multinational corporations, unlike non-United States multinational corporations operating in this country, do not have as much freedom to move funds from the United States as is assumed. They are given a quota, for the net amount of foreign investment funds they can transfer from this country, based on certain historical experience. For additional investment they must borrow abroad I believe that responsibility for disturbing the international monetary system is the least of the indictments that can be brought against the multinational corporations. Regarding the effect on exchange rates, it should be noted that, at least when a currency is healthy, the banks are the origin of big transactions. This is largely due to an extreme use of monetary instruments by Governments which, in their attempts to control inflation, create great disparities in interest rates. These disparities induce a flow of funds across frontiers. Certain Governments, for instance the Government of the Federal Republic of Germany, have attempted to impose controls. Indeed, Governments can control their own banks doing business in the Eurodollar market by requiring them to hold reserves against their Eurodollar borrowing.

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* Questions were asked by the Chairman, and Messrs. Mansholt, Uri, Deutsch, Dunning, Komiya, Estrany y Gendre and Ghozali.

Question: How can speculation be prevented without the imposition of very strict rules?

Reply: Speculation merely induces Governments to bury currencies that are already dead. The losses that a country suffers from an over-valued or under-valued currency appear mainly in the distortion of trade, production and employment. Speculation can even be beneficial by forcing Governments to adjust their exchange rates.

Question: Do you agree that there is a need for a co-ordination of public finance and central bank policies commensurate with the inter-nationalization of business?

Reply: Inter-governmental co-operation in monetary policies is essential but also extremely difficult. Governmental regulation of the foreign transactions of banks is helpful. But it is the extremes in monetary policy that should be avoided, and this can only be achieved if measures are taken to moderate the rate of inflation.

Question: Are multinational corporations responsible for the leads and lags in payments? And how does their multinational character affect their transfer of funds during periods of crisis?

Reply: Multinational corporations are not responsible for the "errors and omissions", since the large corporations at least must report on a quarterly basis any changes in foreign claims and liabilities whether they originate in trade or in liquid funds. Also, they cannot build up excessive claims on their subsidiaries through leads and lags because these would be regarded as direct investment. They have, of course greater facility in arranging such leads and lags with their foreign affiliate than independent companies but I believe the "errors and omissions" are mainly due to trading companies and individuals.

Question: What monetary system would avoid extremes in monetary policies, one based on fluctuating or one based on fixed exchange rates?

Reply: Even under a system of fluctuating exchange rates, Governments would not have more freedom in monetary policies. For instance, the depreciation of the dollar and the ensuing higher import prices added to inflationary pressures; the United States Government then resorted to tight monetary policies.

Question: How can the developing countries have greater access to the Eurocurrency market? What are the prospects for the adoption of a link between the creation of SDRs and financing for development?

Reply: The developing countries are large borrowers in the Eurocurrency market; their access to the Eurobond market has greatly increased. The United States and many European countries do not favour the "link", but I believe there will in future be a greater contribution of resources to development agencies. I do not expect the new SDRs to be issued soon.

Question: Who are the major losers and who are the big winners in the monetary crisis?

Reply: When the dollar was over-valued, exporters to the United States (Japan, Germany) were gaining, while their central banks were losing since they were accumulating dollars -- an over-valued currency. United States investors abroad were also gaining because they were buying real assets abroad at bargain prices, while monetary authorities both in the United States and abroad were losing. Also, United States importers were gaining while United States corporations which could not compete with imported goods were losing. During the speculation period, the central banks that bought dollars at a high rate were the losers, while their own nationals, the speculators and all those who sold dollars to the central banks, made profits.

José CAMPILLO SAINZ

Under-Secretary for Industry and Commerce of Mexico

Summary of oral and written statement

The accelerated growth of transnational corporations and the increase of their influence is an outstanding phenomenon of the contemporary world economy and both the resolution of the ECOSOC establishing the Group and the Secretariat report are milestones in international co-operation. This phenomenon signals to the developing countries a new form of domination and new ways in which the legislation and policies of the home countries may be imposed upon them. Although most non-national corporations are located in the developed countries, their expansion deeply affects the political, economic, and social life of the Third World. They act on a global scale, and seek goals not necessarily coinciding with those of the host country or even of the country in which their capital originates Thus, organizations seeking only financial gain finally become pressure groups in international political life and create problems for the co-existence of nations. At the same time, their importance to the world economy is undeniable. They are a phenomenon that cannot be overlooked, and their power must be channelled towards solidarity and justice.

For Mexico, as for all the countries of the Third World, the problems raised by the transnational corporation are of great practical importance. In Mexico's own process of development and growth, a stage has been reached where new strategies must be defined and new objectives devised. We have set qualitative as well as quantitative goals. We realize that development without social justice is not true development. We need to speed economic development in order to provide the resources needed for welfare, but its fruits must be equitably distributed among all Mexicans.

We also regard development as an affirmation of the will to independence of countries and people. An under-developed community is a subordinate community. But our desire for autonomy does not spell autarchy. We want to intensify and tighten our relations with the rest of the world. Foreign capital and techniques can help to speed our development and supplement our own savings and efforts, but we will receive foreign investment only if it contributes to the objectives that we have set for ourselves.

It is this concept of autonomy, in the sense of controlling the decisions that affect our economic life, that lies behind the laws recently adopted by Mexico on foreign investment and the transfer of technology. They are not restrictive in intent but rather selective. The activities of transnational corporations are not summed up in the mere flow of capital or technology, but their participation in the economy of a country is controlled if those two areas are regulated and limited.

The basic principles of the Mexican legislation on foreign investment are that it must comply with the law of the land, and that foreigners acquiring assets in Mexico must agree to regard themselves as nationals as far as those assets are concerned. Hence, controversies arising because of activities carried out by foreigners in Mexico must be subject exclusively to Mexican courts. No compromise or concession can be accepted in respect of our sovereignty. Further, no foreign investor can call on his home country for help (Calvo Doctrine) nor is he to be allowed to intervene in the country's domestic affairs. That principle, repeatedly upheld by Mexico, was endorsed by the most recent Assembly of the Organization of American States. Mexico is also free to dispose of its own natural resources, if necessary through expropriation, based on our country's legal and juridical proceedings, and can dictate to private property in the public interest. This again forms part of the concept of sovereignty and cannot be curtailed.

The law promoting Mexican investments and regulating foreign investment, adopted on 9 March 1973, also defines those fields of activity which, because of their economic and social importance, are reserved to the state exclusively or to Mexicans or Mexican firms, with special clauses covering activities in which foreign investors can participate to a percentage below 49 per cent, and finally sets as a general rule that in activities not specifically regulated foreigners may only occupy minority positions. The principle is also set forth that foreign participation in the governing boards of corporations cannot exceed the capital participation. However, it was recognized that these rules cannot be inflexibly applied and a National Commission for Foreign Investment was therefore set up, empowered to increase or diminish the percentage of foreign capital admissible, where it is in the interest of the country to do so.

Under the new law, foreign investment must complement the natio investment. The Government is therefore opposed to the acquisition by foreign investors of established Mexican enterprises. The law is not retroactive, but in order to achieve a closer link between foreign capital and the country, we recommend that transnational corporations already established in Mexico should offer part, preferably a major part, of the shares of their affiliates for purchase by the Mexican public. This would give the corporations a deeper root in the Mexican economy and avoid any possible tension.

Through the law governing transfer of technology, we are trying to ensure that we receive technology on terms that will meet the needs of the country and help to achieve our development objectives. We will not agree to contracts imposing excessive royalties or export restrictions, or containing clauses limiting the purchaser's power of administration.

It is for the countries themselves to lay down the conditions on which they will accept the activities of transnational corporations in their territories, as Mexico has done. At the same time, the size of these corporations and their influence on the world economy justify the adoption of international norms of conduct that will define their sphere of action.

It is evident that the weakness of the countries of the Third World in the face of the transnational corporations flows from an international order in which an unjust distribution of wealth prevails, and in which the condition of the less developed countries is not always taken into account. The developing nations know that solidarity among them is essential.

if we are to survive and progress. We also know that as the countries of the Third World fail to adopt united positions, so they weaken and narrow their negotiating powers and thus may fall an easy prey to reprisals and discriminations which would ultimately frustrate for all the possibilities of achieving equal and just treatment. The most pressing duty of the international community today is to create a peace economy, and peace can never rest on injustice. It was for that reason that the President of Mexico proposed at the third United Nations Conference on Trade and Development that a charter of the economic rights and duties of States should be drafted to protect the weaker nations. That charter is now being considered by a working group.

Some of its basic principles, which bear directly on the problems raised by transnational corporations, are: freedom to dispose of natural resources, respect for the right of all peoples to adopt the economic structure of their choice and to impress on private property modalities dictated by the public interest; renunciation of the use of economic pressure to impair the political sovereignty of States; subjection of foreign capital to national laws; prohibition of interference by transnational corporations in the domestic affairs of States; abolition of discriminatory trade practices; trade preferences for developing countries; fair and stable commodity prices; dissemination of information on low-cost technology; and long-range. non-tied, low-interest financial assistance for economically backward countries. The adoption of such a charter seems more urgent than ever today.

As far as the suggestions in the Secretariat report are concerned, I am in favour of an international forum, and the creation of an international information centre. I also support technical assistance by the United Nations to strengthen the negotiating position of the developing countries in their dealings with transnational corporations. As regards the settlement of disputes, Mexico would regard the submission of a controversy to a court other than its own as an unacceptable limitation on its sovereignty. Mexico is also in favour of a code of conduct for transnational corporations, provided that it did not in any way impair the sovereignty of the recipient countries. Such a code would complement the charter on the economic rights and duties of States.

The code might contain the following additional stipulations: foreign investment should complement national investment; transnational corporations should not replace national corporations or deal in fields adequately covered by them; their activity should have a positive effect on the balance of payments, particularly through the increase of exports; they should promote increased employment and adequate remuneration; they should hire and train technicians and administrative staff from the host country; they should as far as possible utilize national products in preparing their final product; they should finance their operations preferably from outside resources; they should ensure diversification of investment resources; they should contribute to the development of the less developed economic zones of the host country; they should not monopolize the national market; they should supply the best and most appropriate technology and contribute to local research and development; they should have a favourable effect on the quality and price level of production;

they should respect the social and cultural values of the host country; they should identify with the interests of the host country; they should not distort the consumption pattern; and, in general, they should help to achieve the objectives and comply with the development policies of the host country.

Summary of replies to questions*

Question: Would continuing international action on the issue of multinational corporations be helpful? If so, what form should it take? Should there be some form of international agreement on investment on the lines of GATT?

Reply: International action is desirable, preferably through the United Nations, possibly at the level of the Economic and Social Council. An Information Centre would also be helpful, as would technical assistance in negotiating transfers of technology. An international code of conduct for transnational corporations would be of value. As regards a GATT-type of agreement, many developing countries are not members of GATT, which is itself in the process of being revised. Since we have not yet been able to perfect GATT in matters of international trade, it can hardly serve as a pattern for the far more difficult problems raised by transnational corporations. Some indications for a viable code of conduct might be drawn from the way in which the charter of the economic rights and duties of States at present under study in the United Nations is implemented. Moreover, the attitude of the developing countries to foreign investment is not uniform; it is necessarily dictated by their own resources, savings capacity and attitude to development.

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* Questions were asked by the Chairman and Messrs. Mansholt, Dunning, Sadli, Schaffner, Deutsch, Matthoeffer, Estrany y Gendre, Trindade and Uri.

Question: Would you agree there must be some machinery to enforce any rules that are adopted?

Reply: If we have any body of laws, we must make them operative, while at the same time respecting the sovereignty of States. The International Labour Office might serve as a model.

Question: What happens if the attainment of one of the objectives Mexico has laid down in respect of national development for both national and transnational companies clashes with another?

Reply: Since we are not a centrally planned economy we do not have an investment commission for all investments. Foreign investment is controlled when it intends to assume a majority position We have set up a National Commission for Foreign Investments which judges which interest is more important for the country, in the case of a conflict. National companies are governed by similar rules, in the case of import requirements, outside capital, etc.

Question: What effect have your policies had on inward investment?

Reply: If we have lost any foreign investment as a result of our policies, it has been well lost; we are not interested in capital that will damage the country's interests. We want investment that will encourage development. Ideally, the countries of the Third World should take a united stand on conditions for investment. In Latin America, a start has been made. Legislation similar to Mexico's has been passed in the Andean Pact countries and in Argentina.

Question: Have you any policy for controlling the advertising or sales efforts of major companies so that they cannot distort the consumption pattern?

Reply: Unfortunately, no. We must guide consumption by means of tax policies.

Question: Could you, in the light of the Calvo Doctrine, accept a code providing for international arbitration?

Reply: Arbitration exists to resolve disputes between States. What is involved in the case of private foreign investment is a dispute with an individual who has agreed to abide by national legislation. We cannot agree to arbitration which would give the foreigner preference over the national.

Question: You require a considerable local participation in the capital of subsidiaries of multinational firms settling in your country. Could this obligation be satisfied by purchasing stock in the parent company?

Reply: It would not be beneficial to Mexico. If we invested our small domestic savings in a transnational corporation, we would have no share in its decision-making and there would be no benefit to the Mexican economy. We want activities carried out in Mexico to have majority participation by Mexican capital and to provide employment for Mexican workers. Every subsidiary or affiliate operating in Mexico must be incorporated under Mexican law and must offer shares to the Mexican public. However, the law is sufficiently flexible to allow an investment with minority Mexican participation or even none at all, if the Commission on Foreign Investment decides it is in the interest of the country. The law on foreign investment adopted in 1973 is not retroactive, but we are inviting companies not in compliance with it to comply voluntarily.

Question: Does Mexico intend to encourage foreign investment that would have a high labour-absorbtive capacity?

Reply: Yes. We want mechanization where it is appropriate -- in petrochemicals, steel, etc.,-- but in other fields, rural industry and so forth, we are looking for a technology which without reducing efficiency and raising costs will ensure the utilization of labour.

Question: What does your Government do to check unfair transfer pricing?

Reply: Theoretically, we have legislation allowing the authorities to investigate prices, but it is not always easy. We are also trying to combat the practice through our law on the transfer of technology.

Question: What is the Mexican Government's attitude to export restrictions?

Reply: We regard as null any contract which contains restrictive clauses or establishes any export prohibition contrary to the interests of the country. Cases are considered on their merits.

Question: What bargaining power do you have in your dealings with multinational corporations?

Reply: Generally speaking, we negotiate rather than give a flat 'yes' or 'no'. We have used our machinery for promoting industry, import licenses, programmes of manufacture, etc., with considerable success. Sometimes we are unsuccessful, in which case the multinational corporation does not come into the country.

Question: Do you agree that an international agreement should include rules for both host countries and multinational corporations?

Reply: International regulations must make clear the rights and obligations of developed and developing countries and the multinational corporations themselves.

Question: What criteria are used in deciding whether a sector is reserved for State ownership, reserved for national companies, or open to foreign participation?

Reply: Those sectors of fundamental importance to the economic life of the country, such as railways, electrical energy, the basic petrochemical industry, including refining, and the production of radioactive material, are reserved for the State. Other activities of great socio-economic importance, for example, radio, television, and communications other than railways, are reserved for Mexicans. Some other sectors require special Mexican majority holdings of more than the usual 51 per cent -- for example, Mexican capital investment in the steel, sulphur and coal industries is 66 per cent.

Emilio COLLADO
Executive Vice President
EXXON Corporation

Summary of written and oral statement

I believe the most important contribution of the Group's study will lie in the further exchange of views it brings about between private international investors and Governments. The United Nations panels on foreign investment were very successful beginnings to such a discussion, which serves to increase mutual understanding of our respective goals.

A principal concern in your study is the motivation and behaviour of multinational corporations. In making new investment, multinational corporations are most interested in carrying on a successful business operation over time. These companies are not in business, either at home or abroad, to earn quick returns, recover their capital, and then "get out" of business in a given project or country.

Since no multinational corporation has unlimited resources, it must choose carefully among the many investment opportunities which arise. In making long-term investments abroad, multinational corporations are vitally concerned that the basic "rules of the game" affecting these investments will remain relatively stable, or at least predictable, over time. The Secretariat's Report appropriately recognized that "a critical requirement of a multinational corporation is a reasonably stable environment in which growth and profitability is possible." Within these limits, investors acknowledge that the future is uncertain, and, in the case of specific investment agreements, that there are occasions where both parties will seek agreement on modifications.

Concerning their responsibilities to society, multinational corporations generally see their most important responsibility as conducting their particular business well -- by producing a high-quality product or service efficiently and offering it at a reasonable price. A second level of their responsibility to society is to ensure that the indirect impact of business operations is consistent with national goals -- for example, with respect to protecting the physical environment, reducing social inequities, and improving labour skills. A third level of responsibility concerns efforts to enhance the broader social environment in countries in which the corporation has operations, for example, by providing support for health and education, community development, and national cultural activities. Multinational corporations generally accept these three levels of responsibility, not simply because it is "the right thing to do" but to a great extent because such behaviour promotes successful long-term operations in foreign host countries.

Although conflicts with Governments have not been common, the potential for conflicts in the goals of multinational corporations and Governments is a cause for serious concern among host countries. This concern reflects a number of factors. First, the large size of many multinational corporations has been cited as evidence of substantial power over national economies. However, most of the wealth of multinational corporations consists of fixed assets, which cannot be summoned to bring pressure to bear on either individual currencies or Governments. The many examples of unilateral government actions -- imposed production and export quotas, price controls, enforced sell-outs, and in some cases expropriations -- and the accommodations made by multinational corporations, do not indicate that global size entails substantial power. The success of multinational corporations in operating in many countries over long periods largely reflects their ability to adapt to -- not escape from -- the national requirements and goals of individual host countries, while continuing to carry on effective business operations.

Second, multinational corporations may be viewed as a "disruptive" influence, for example, by paying wages in excess of the going rate in an area, introducing labour-saving technology when unemployment exists, or by making some national enterprises non-competitive. While some "disruptions" inevitably accompany the development process, greater efforts are needed to anticipate and accommodate them. Thus, it is important that subsidiaries of multinational corporations should keep host Governments informed about their plans and work out co-operative solutions to those problems which seem likely to arise.

Third, host countries are concerned about the division of the benefits from foreign investment between host countries and investors. Much of this concern seems to reflect a belief that there is a fixed amount of benefit from foreign investment, and that one party can gain only at the expense of the welfare of the other. This has led some host Governments to impose a variety of restrictions governing the activities of foreign investors. However, multinational corporations are likely to make their greatest economic contributions to host countries where government policies toward foreign subsidiaries are well-established and predictable, non-discriminatory as compared to national enterprises, and not excessively restrictive.

I believe there are a number of positive actions which both corporations and Governments could take to reduce, if not eliminate, potential sources of conflict. First, to the extent that tax policies may distort international investment decisions, such distortions should be reduced. This suggests further inter-governmental efforts to achieve the following: eliminate discriminatory tax treatment of foreign investment by host countries; prevent international double taxation (where multinational subsidiaries are fully taxed by both host and home country Governments); and bring about greater harmonization of national tax policies.

A second major issue in the tax area concerns the international transfer pricing practices of multinational corporations. It has been alleged that multinational corporations are able substantially to reduce their total tax burdens by adjusting the prices charged for goods and services transferred among their various affiliated companies. The extent of distortions in this area has been greatly exaggerated. In general, multinational corporations follow normal commercial practices in their inter-affiliate transactions, and prices charged realistically reflect the market values of the goods or services transferred. "Manipulation" of transfer prices is usually neither feasible nor desirable, for a variety of reasons. Moreover, the penalties for using improper transfer prices are severe. When a Government decides such prices are inappropriate, the unilateral imposition of tax liabilities results in double taxation for the multinational corporation.

It is clear that multinational corporations ought consistently to reflect arms-length or market prices in their inter-affiliate transactions. (In fact, current United States law requires United States-based multinationals to do this.) On the part of Governments, it would be most desirable to reach international agreement that arms-length or market prices for inter-affiliate transactions should be used to determine taxable income, and thereby avoid unilateral government decisions to tax income which has already been taxed by another Government.

More generally, multinational corporations might agree on a voluntary "code of conduct" describing broad principles of acceptable behaviour in various areas. This would undoubtedly contribute to a better climate of understanding for the corporations generally. Such an investors' code could broadly support positive adaptations to host country social and economic goals, and condemn certain undesirable forms of behaviour. The International Chamber of Commerce has made a useful contribution to developing such principles for behaviour.

Concerning government policies, harmonization of national policies affecting multinational corporations is probably not feasible, and in some cases not desirable for individual countries. However, there are some policy areas in which greater co-ordination is possible, and would result in substantial benefits to multinational corporations and Governments. Beyond the area of tax policy, greater international co-ordination of national policies toward foreign investment would also be useful. However, regional harmonization of host country policies for the purpose of substantially restricting the activities of foreign investors may backfire, if the adverse business climate causes multinational corporations to undertake alternative investments outside of such regions. On the other hand, multinational corporations would be significantly encouraged to undertake new investments in developing nations if they had a greater assurance that their operations in these countries would not be subjected to substantial new forms of discrimination or controls once their facilities had been constructed. Thus, a measure of international agreement on some maximum extent of discrimination or restrictions affecting foreign investment in various policy areas -- such as taxation and foreign exchange remittance policies, for example -- could substantially reduce the investment risks perceived by multinational corporations. As the discussion continues among investors and Governments, elements of a broad inter-governmental agreement could evolve and be available for individual Governments to endorse voluntarily.

Such inter-governmental agreement could also include a broad commitment by host Governments to submit foreign investment disputes to the international conciliation and arbitration facilities of the World Bank or ICC. This commitment would dramatically improve the climate for investment in these countries, and would avoid some of the "confrontations" which have characterized past investment disputes.

It seems clear that a continuing exchange of views among investors and Governments would contribute greatly to a better climate for understanding of their respective goals. It would be desirable to provide for a continuing discussion in which the developing and industrialized countries participate equally, along with multinational corporations. A natural way to achieve this is to expand the United Nations panel on foreign investment and make it a permanent United Nations activity. I hope that such an effort will receive your serious consideration and active support.

Summary of replies to questions *

Question: Can multinational corporations as a whole be open to all three forms of collaboration: subsidiary status, joint-venture status, or outright sale of technology? Or are there certain types of corporation which find one or more of these alternatives not feasible, and, if so, on what grounds?

Reply: Various forms of ownership and organization are appropriate for various types of enterprises and projects. We cannot say that any one of the three major forms mentioned is appropriate, either for all kinds of company or for all activities within a particular company. "Joint venture" used to mean a company owned by several companies - private or governmental - as contrasted with a company with a large number of individual private shareholders. In our industry we think it quite inappropriate in most cases to bring individuals, in the form of a joint venture or company with private shareholders, into the very risky new exploration phase of our operations.

In recent years the oil industry has moved very rapidly with joint ventures among oil companies and with governmental oil companies. Our company's shares are quoted on most of the world's major exchanges, and a substantial number of shareholders come from countries other than the United States.

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* Questions were asked by the Chairman and Messrs. Mansholt, Sadli, Schaffner and Uri.

We have sold technology, particularly in the area of processes, refining processes and so forth, for many years, and we also buy technology, from developing as well as developed countries. Our problem is that advanced technology nowadays is very difficult to separate from know-how. You can sell know-how by teaching and demonstration through participation in an operation, but you cannot deliver it in a package.

Question: When subsidiaries are set up in developing countries, do Governments ask for production methods that are as labour-intensive as possible or do they want the most modern technology?

Reply: We tend to use the best technology appropriate to the particular job or project, wherever it may be. In oil exploration, the best technology is probably the most modern because more oil is found that way, which is the aim of the operation both for the company and the host country. In processing also, using less modern technology is almost always an economic failure. The small boost that it gives to employment usually results, in export industries particularly, in making the enterprise non-competitive.

Question: Do you allow local managers to choose production methods acc[illegible] to what is best fitted to the local situation and least likely to cause disruption, or are they decided globally from headquarters?

Reply: We have no preconceptions. We analyse each situation and if disruption can be avoided by making relatively easy choices among possible courses of action, we do so. If the economic impact of trying to avoid a particular disruption has a cost that outweighs the benefit of avoiding it, we try to find some other way of dealing with the disruption. In the case of wildcat exploration there would be no local organization in place to take the decision, so someone would be sent from headquarters.

Question: Do you perceive yourself, typically, as a member of an oligopoly or not?

Reply: I do not think the oil industry, which comprises innumerable companies, large and small, some integrated and some not, has any market power of the sort implicit in that remark.

Question: What is your reaction to the idea of taxing world-wide profits?

Reply: It is an interesting proposal that will take a great deal of working out. One problem is that it might eliminate various nations' investment incentives.

Question: Do you regard harmonization as so valuable that you would accept the creation of a new piece of international law enforceable by an instrumentality such as GATT which would make regular reports to the United Nations, with a special United Nations body supervising the whole activity?

Reply: Some of the things we are talking about in harmonization are strictly national laws that should be harmonized between countries. In tax matters you do not need an international organization. Other things, such as anti-trust policy, must by definition be co-ordinated among the Governments. They already possess considerable machinery for exchanging policy views in this field, as well as taxation.

I do feel that there should be a voluntary code of conduct for corporations: the International Chamber of Commerce's efforts in this field have been quite useful and have aroused considerable interest in many parts of the world. Some harmonization of policy considerations on the part of Governments, both developing and developed, would be encouraging from the multinational corporations' point of view. This brings us to the further problem of arbitration and conciliation procedures rather than unilateral action without discussion.

We are not nearly ready to set up a body of accepted doctrine or an organization to administer and implement it. We should continue a serious and detailed dialogue of the kind started here today.

Nathaniel GOLDFINGER
Director, Department of Research
American Federation of Labor and Congress
of Industrial Organizations

Summary of written and oral statement

The AFL-CIO, the trade union centre of the United States, has urged the United States Government, for many years, to reshape its policies to meet the scope, speed and size of the radical changes in international economic relationships of the past quarter of a century, particularly of the past dozen years. One of these changes has been the mushrooming spread of multinational corporations and banks, with global operations and world-wide transfers of finished goods, components, technology and funds.

The AFL-CIO has consistently emphasized the point that new factors in the 1960s and 1970s have required changes in policies affecting international trade and investment. In the past 25 years, there has been the revival and resurgence of war-shattered economies. The spread of managed national economies -- with varying degrees of government regulation and control -- has resulted in varying degrees of government management of exports, imports, technology-transfers and investment. Regional trading blocs, such as the European Economic Community among the more developed countries, and the various regional blocs among so-called developing countries, have emerged, with special arrangements among themselves and with third countries. Developing countries have established extensive trade regulations, capital and technology controls and imports substitution for a variety of reasons. The internationalization of technology has spread rapidly. One reason has been that the United States Government has encouraged technology outflows. Sharply rising investments by United States firms in foreign operations have exported United States jobs, technology and production facilities. These investments soared from \$3.8 billion in 1960 to an estimated \$16.3 billion in 1973. In a paper prepared for the Joint Economic Committee of the United States Congress, Professor Peggy B. Musgrave of Northeastern University explained the implications of these investments:

"While it is believed that United States investment abroad has on the whole been economically beneficial to foreign host countries, its benefits to the United States economy are less obvious. The accumulated capital outflows of the last 20 years have generated a return flow of income which now (at $6 billion in 1970) exceeds the continuing capital outflow (at $4.4 billion in 1970). Yet, measured as a rate of return on the $80 billion stock of capital in place abroad, such income flows compare unfavourably with earnings on domestic capital in the United States. While such income flows have come over time to provide a helpful credit in the balance of payments, the underlying trade effects are less obvious and more controversial.

"It is possible that production by United States affiliates abroad, particularly in manufacturing, may serve to displace United States exports and even domestic sales in the United States. This displacement effect is the more likely since those corporations accounting for the bulk of manufacturing investment abroad are also major exporters. Moreover, sales of manufacturing subsidiaries abroad are now two to three times the level of United States exports of manufactured products. It should be recognized that the economic and political effects of maintaining a share of foreign markets via foreign production are very different from doing so via domestic production and exports. The principal difference lies in the effects on labor productivity and shares in national income. Foreign investment may enhance the private profitability of United States capital but it is likely to reduce the real wage to United States labor as well as the Government's tax share in the profits."

Prof. Musgrave's conclusion may be put in a broader context: The operations of multinationals may enhance their sales and profitability, but they are likely to reduce the real wage of workers in the home-base country. And I would add that they may also distort economic and social development, with adverse impacts, in the host countries.

The mushrooming spread of multinational firms and banks, both United States-based and foreign-based, the relationships of such firms with nation-States with centrally-planned or market economies, and the functioning of nation-States with centrally-planned economies with similarities to multinational firms -- these global operations of multinational firms have become both a major consequence and cause of great changes in the world economy.

A substantial portion of what national Governments report as imports and exports is actually intra-corporate transactions among the subsidiaries, plants, sales agencies and similar divisions of multinational firms. Another substantial portion of such reported data is between the multinational firm and other companies, in various countries, with which it has license, patent and joint-venture arrangements. Multinational firms, therefore, can juggle prices, dividends, currencies and sales -- as well as components and finished products -- from one country to another, within the structure of the firm and for the advantage of the firm, depending on variations in such factors as labour costs, taxes and currency exchange rates.

The very existence of multinational firms and banks, with their ability to rapidly move large amounts of funds from one country and/or currency to another -- aside from the possibility of deliberate speculation in currencies -- is an ever-present potential threat to relatively stable currency and exchange-rate relations among nations.

A decision that may be rational for a multinational firm may have adverse effects for workers or consumers or social progress in the multinational's home-base nation or in other nations. Or what may be a rational decision for the multinational company may create severe difficulties in international monetary relationships. Yet there is no international law, regulation, supervision or accountability of multinational firms and banks.

The AFL-CIO has naturally focussed its attention on the impact of United States-based multinationals on United States workers, the United States economy and society.

The combination of the substantial changes in the world economy, indicated above, and the rapid spread of multinational firms, have had a devastating impact on the position of the United States in international economic relationships. This deterioration has accelerated in recent years, with increasingly serious adverse impacts on United States workers, communities, industries and the national economy.

The AFL-CIO does not claim that this deterioration is caused, entirely, by United States-based multinational firms. But it is our conviction that the unregulated operations of the multinationals are a major factor.

The shutdown of manufacturing operations in the United States and the transfer of technology and capital depress the American economy by the loss of hundreds of thousands of jobs, the loss of payrolls, the loss of national tax revenues, the loss of local purchasing power, the loss of local taxes and the "ripple out" effect on local services. Hard-hit communities face empty factories, slackened business, unemployed workers and an eroded tax base.

The adverse impacts of the deterioration of the United States position in international economic relations and the impacts of multinationals are much tougher and more direct on workers than on capital or top-management officials. Capital is mobile. Investments can be moved out of an unprofitable business to other companies, industries and countries. Top-management officials are usually much more mobile than workers.

In contrast, workers have great stakes in their jobs and their communities -- skills that are related to the job or industry, seniority and seniority-related benefits, investment in a home, a stake in the neighborhood, schools and church. There are also significant adverse impacts on the collective bargaining strength of affected unions, on the wages and labour standards of workers in adversely affected industries.

This movement of plants and technology is to other countries, with different laws, with different labour and social standards, often with different political and economic structures relating to the right of freedom of association and collective bargaining.

The suggestion in the United Nations report, that unions of various countries can perform the same kind of effort to solve new problems as multinational firms, shows some ignorance of the characteristcs of trade union organization. For example, it was not even mentioned in the report that free trade unions, collective bargaining and the right of freedom of association are severely limited or hardly existent in some countries and exist in name only, if at all, in some others. Where there is no freedom of association, there can be no free trade unions and genuine collective bargaining.

Unfortunately, international economic experts usually show little interest and even less knowledge about the employment or social impacts of international trade and investment.

Most developing countries are confronted by a lack of strong and viable economies, inadequate expansion of per capita gross national product, inequitable distribution of income and lack of an adequately viable social and political base.

In recent years, the developing countries have placed growing emphasis on increased exports of manufactured goods to the industrial countries, particularly the United States market, and have been demanding trade preferences from the United States and other industrial countries. This demand by the developing countries has been joined and supported by some major international banks and multinational companies. Such preferences could result in substantial benefits for the multinationals which operate subsidiaries in developing countries, with little benefit and perhaps, adverse impacts, for developing countries.

This emphasis on exports as the sole or major solution to their economic, social and political problem is unrealistic. It shifts attention away from the need for balanced economic development for viable economies and societies; for improved education and manpower training of the populations; for improved labour and social standards, including effective minimum wage measures; for increased social development investments, such as housing; for the development of free institutions, such as trade unions and effective collective bargaining; and detracts attention from the urgent need to effectively curb the large outflows of private capital by wealthy people and business. Its adoption could benefit the multinationals, with only doubtful and minimal benefits -- and possibly harmful, distorting effects -- on the developing countries, their economies and societies.

Within a balanced framework of economic and social development, the expansion of trade is a factor, although surely not the sole or major factor.

The AFL-CIO has sought to help workers and free trade unions in other nations to strengthen their organizations and lift the conditions of life of workers. The AFL-CIO has supported international co-operation to strengthen freedom and the right of freedom of association, to assist free trade unions in other nations to improve working and living conditions.

The co-operation of free trade unions of various nations will continue and it can help to improve the working conditions and living conditions of workers. But such efforts are no adequate substitute for the effective regulation of multinationals.

Ideally, major parts of the solution of the deteriorating position of the United States in the world economy -- and the growing problems posed by the multinationals -- are probably in the international arena, through international regulation of trade and investment. But there is not even an international organization, at present, to develop and implement regulation of the operations of the multinationals. Moreover, as the United Nations report shows, there is no international law on the operations of multinationals, even for the protection of the multinationals, which have their own variety of problems.

On merely one aspect of international action -- the development of international fair labour standards in world trade -- organized labour in the United States has been urging the development of an international policy and international machinery for well over a decade. There are, as yet, not even any beginnings in this area.

The realities of international trade and investment in the 1970s, the size, scope and characteristics of multinationals -- regardless of their national base -- need to be examined. These should include multinationals with bi-national legal home bases, such as Royal-Dutch Shell; multinationals which are part legal corporations in one country and part joint-owners with foreign nation-States; and the functions of nation-States, particularly centrally-planned economies, as multinationals in both developed and developing countries. Attention should also be paid to what the United States economists call conglomerates and their varying impacts in different countries.

In the absence of international law, international regulations, or even international machinery affecting multinational firms and banks, nations have acted and will continue to act to regulate the operations of multinational firms. In the United States, it is the view of the AFL-CIO that United States Government action is urgently needed for the regulation, accountability and proper taxation of United States-based multinational corporations. We are pleased that the United Nations report recognized the need for national action.

As we, in the AFL-CIO, see it, there is urgent need for an adequate United States trade and investment policy -- for the orderly expansion of trade, including the prevention of growing adverse impacts on American workers and communities; for effective measures to regulate the operations of multinational companies; for curbs on runaway plant developments; for fair and effective taxation of multinationals; for regulations and curbs on the export of American capital and technology.

Replies to questions *

Question: Do you expect United-States-based MNCs to continue to grow rapidly?

Reply: Economic forecasting is rather a dangerous game, even in terms of domestic economy. I cannot forecast anything now about the future growth of United-States-based MNCs. The over-valuation of the dollar may have been one of the many reasons for their growth in the recent past. Others may be the trade policies of foreign Governments, protective policies that make location behind the trade barriers of those countries seem attractive to United States companies, and various types of world competition in terms of wages and labour standards, as well as taxes and other conditions of that sort, and markets.

Question: What would you think of an international social fund fed by contributions from MNCs which would make it possible to compensate for the net loss of jobs when an MNC shifts from one country to another?

Reply: The idea is interesting and I would like to see it developed. However, I do not believe that any form of adjustment assistance can in itself solve the problems that result from very sudden, rapid and wide-scope changes resulting in the large-sçale loss of jobs.

Question: Should there be a distinction in international policy between wages that are low because of an underdeveloped environment and low productivity and those that are kept low through the prohibition of strikes or organization of labour?

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* Questions were asked by Messrs. Uri, Dunning, Matthoefer, Ivanov, Javits and Mansholt.

Reply: We have not suggested an international wage but the development of some kind of standard. As a start we have suggested the development of some kind of international machinery where complaints could be filed for investigation and examination. Despite our efforts, we have been unable to achieve anything in this area or in any other form of international regulation and supervision of the multinationals, or the development in any shape of international fair labour standards.

Question: Is there a conflict of interest between the people of the less developed world and the workers of the United States who must bear the brunt of the displacement of a particular industry when the whole nation or the whole developed world should be assisting in the reallocation of resources?

Reply: The issue is one of distribution of income among groups rather than among nations. The aim of foreign investment or the transfer of technology is to benefit the MNC. It takes maximum advantage of its opportunities on a global basis rather than a merely national basis so that the top management and the stockholders can receive a benefit, but what about the workers, in the home or the host country - particularly a developing country where the investment may have a distorting impact on economic and social development? These impacts require careful examination. A decision that may well be rational for the multinational may not be rational for society either in the home country or in the host country.

Question: What has been the result and effectiveness of the international trade union secretariats?

Reply: Their activities are important but they need to be strengthened considerably. They are not an adequate substitute for regulation of the multinationals in the form of some kind of accountability, proper taxation and so on.

Question: Have you approached the World Federation of Trade Unions about co-ordination?

Reply: We have not done so because of basic differences in concept and organization. We have relations with trade unions that we consider free of government or business control.

Question: Do you consider that there is any value at all in the MNCs?

Reply: We have never called for the destruction or elimination of the MNCs. We have called for their regulation, the ideal form of which would be international. But we cannot afford to wait another decade or more for the United Nations or any other international body to develop standards and regulations. We have tried unsuccessfully to get international fair labour standards through the ILO. In the absence of international law, international machinery and international regulation, we are seeking the best that we can do, that is, United States Government regulation of United-States-based MNCs.

Ernst KELLER
President, ADELA Investment Company S.A.

Summary of oral and written statement

Because of my background and experience--20 years of work in industrial development for private enterprise in Latin America--my statement will focus primarily on the role, contribution and problems of multinational corporations in Latin America.

The major contributions of multinational corporations in developing countries are investment capital, technology and management, education and training, new employment and income, improvement of health facilities and social welfare institutions, and increase in trade and foreign exchange earnings.

Investment capital The contribution of multinational corporations is significant in absolute terms, but generally less significant and not decisive in relation to total investment volume or total new investment. The latter, however, is an unsuitable basis on which to evaluate the impact of the capital investment of the multinationals. They invest predominantly in larger projects, often in smaller countries with limited availability of local capital for large grass-root developments. By doing so, they enhance the development impact of their investment, but at the same time they became involved in key economic sectors which makes them highly visible and vulnerable.

Total foreign investment in developing countries is virtually identical with the investment of multinational corporations, as there are few if any portfolio investments from abroad. During the past ten years, joint ventures--instead of the more traditional overseas investment in wholly-owned subsidiaries--have been significantly on the rise, but in many cases they have not worked out well.

Technology and management In connexion with the education and training of local personnel at all echelons, the transfer of technology and management methods represents the most significant contribution of the MNCs to the socio-economic progress of developing countries. The MNCs are the most effective and perhaps still the only practical channel for this transfer. Because of lack of time and resources for their own basic research and development work, the developing countries, despite their understandable aspirations, need to concentrate mainly on adapting existing technology and management methods to their own needs.

Creation of new employment opportunities Given the great and still rising demographic pressures in the developing countries, the direct and indirect creation of new employment opportunities through MNCs is most important. By selecting intermediate technologies--labour rather than capital-intensive--in many manufacturing industries, the number of employment opportunities created can be significantly increased.

Health care and social welfare MNCs can many times take the lead in improvements in these sectors by transferring the knowledge and experience gained at home.

Balance of trade and payment: With the developing countries increasingly emphasizing production for export markets--instead of import substitution aimed at domestic markets--MNCs with their knowledge of world markets and organization for marketing goods world-wide can rapidly direct their production towards export and significantly enhance a country's trade and payment position.

In summary, the contribution of MNCs is of fundamental significance for the technical and socio-economic progress of the Third World. MNCs are welcome where they develop new technology and methods, create new production capacity and new employment opportunities and income, and contribute significantly to the education and training of people. The role of MNCs is fundamentally different in the Third World from their role in industrialized countries, because the needs and expectations are different.

The considerable problems and difficulties with which MNCs are confronted (despite--or in large part because of--the fundamental significance of their role in world development) are partly psychological rather than material, imagined rather than real.

Psychological causes While industrialized nations are visibly moving from economic independence to interdependence, in most developing countries the legitimate aspiration, and the struggle, for greater economic autonomy still prevails. Many developing countries, in particular smaller nations, feel their respective efforts impaired by the very size of the MNCs, by the significance of their contribution and their involvement in key sectors of the economy. Difficulties in these areas can normally be overcome by recognition of facts and legitimate objectives, and by adaptation of policies and behaviour on both sides.

Relative weight of MNCs in developing countries It is not the absolute size of MNCs in developing countries, but rather their relative weight, the proportion between domestic and foreign-owned enterprises in a specific country, or a specific economic sector of a country, which normally causes concern and growing difficulties. Consequently, in countries or economic sectors where domestic companies have grown into strong positions, the role, visibility and vulnerability of MNCs is greatly reduced. It is in the interest of MNCs to work alongside strong national enterprises. The acquisition of domestic enterprises by MNCs, the "purchase" of a position in a country's economy, is detrimental to this interest and is strongly resented in developing countries. This has not always been understood and observed.

Policy and behaviour The more responsibility and authority MNCs delegate to their local management, the more national personnel they employ up to top management positions, the more qualified and adapted the foreigners they assign to a subsidiary, the better their integration in the host country and the less likely the chance of conflict. The policies adopted in the areas of corporate organization, personnel and finance are decisive for harmonious relations in developing countries. The image of MNCs is normally that of their people.

MNCs that are in the process of reviewing and adapting their concepts and policies for operations in developing countries may take into consideration some irreversible trends, such as:

- the determination of developing countries to achieve a greater economic independence through self-determination of their economic policy and future socio-economic development;

- the desire for significant active participation in the capital, management and policy formulation of enterprises in their country;
- the protection of their developing, but still highly vulnerable, economies against measures of industrialized nations affecting trade, balance of payments, and the possibility of overcoming demographic and economic pressures; and
- the rejection of any attempt at pressure by Governments or companies of other countries, if necessary by accepting sacrifices and setbacks.

Adapting their concepts and policies to these irreversible trends will make the activity of MNCs more difficult. Adjusting to rapidly changing needs, demands and expectations highly taxes the flexibility of private enterprise. I am confident that the MNCs can cope with these trends as long as they can deal in this process with legitimate aspirations and expectations and sound factual arguments. They cannot deal with a number of difficulties which originate from unexplainable myth or from concepts and philosophies which exclude private enterprise as part of the world economy.

Another cause of concern appears to be that MNCs no longer conform to the concept of the nation-State. In this era of great efforts towards economic integration in industrialized and developing continents, multinational activity by enterprises is rapidly becoming a must and a condition for survival. More and new types of MNCs will spring up, including MNCs based in developing countries. They are in many respects the pioneers of international trade and economic integration. As to the concern that MNCs escape the control of the nation-State, I am convinced that most of them would prefer to operate within one nation-State rather than conform to the dozens of widely divergent concepts, philosophies, policies and legislation of the countries in which they operate. In most cases, it was the barriers, restrictions and demands of individual countries rather than volition which forced companies to become multinational. In my opinion, operating on a multinational basis involves at least as many hazards, disadvantages and obstacles as it offers advantages.

MNCs have increasingly been quoted as a cause of the imbalances in the world monetary order. It is not normally a characteristic of MNCs to engage in currency speculation. The combined financial resources of MNCs are formidable, but these resources are most of the time employed in the normal process of business and not available for quick speculation. The latter, however, should not be confused with coverage of currency positions on which a company might suffer losses. Such operations are the duty of every responsible company treasurer.

Opposition has also arisen to the profit motive of private enterprise. It is the profit motive, however, which operates as a major incentive to private enterprise to contribute to economic expansion and the development of opportunities into viable new enterprises within a reasonable time; and time is a most critical factor in the progress of developing countries. Because of the profit motive, the private sector's contribution to the development of the developing countries is free of the charity features inherent in aid programmes. Because of the profit motive, it is a contribution of a permanent nature which provides for self-sustained growth after the initial foundation has been laid. Under normal circumstances, the great majority of MNCs are used to ploughing back all or most of the profits generated in the developing countries, and this means new investment, which means economic growth and new employment.

In general, progress can be achieved where the principles of the market economy are given ample latitude, and where reasonable stability and guarantees enable private enterprise, local and foreign, to plan and implement major new projects. To achieve this, no country should, and MNCs do not not expect them to, sign away any part of its sovereignty and economic self-determination.

Increasingly, MNCs seem to be becoming the convenient scapegoat for every conceivable mistake and failure for which no one else wants to accept the blame. In dealing with MNCs one should distinguish between facts and myth. In my opinion, MNCs should be allowed to attend to their business within the laws of the countries where they operate, and they should not be politicized or their effectiveness crippled by restrictions and international controls.

Summary of replies to questions *

Question: What are your views on the applicability of intermediate technology?

Reply: Intermediate technology can generally be applied in a good part of manufacturing industries, but not in the so-called process flow industries, which by nature are capital rather than labour-intensive. In countries where capital is very expensive and labour comparatively cheap, it is advisable to use intermediate technology. Lower investment involves lower transfer of profits, with a correspondingly reduced effect on the country's balance of payment.

Developing countries want to increase employment opportunities, and under this heading intermediate technology is highly welcome. However, there also exists, specially in smaller developing countries, a great desire to have the latest technology, a desire which has unfortunately resulted in numerous "white elephants". ADELA has introduced intermediate technology in dozens of Latin American-owned companies by convincing the partners that it is the best way to start an industry. In all cases, whether they involve overseas investors or domestic partners, our arguments of lower investment and considerably better return are hard to reject. Investors from very large industrialized countries, e.g. the United States of America, have no knowledge of intermediate technology, because their large market always encouraged them to adopt automation as fast as it could be developed.

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* Questions were asked by Messrs. Browaldh, Mansholt, Komiya, Ivanov, Dunning, Estrany y Gendre, Sadli, Deutsch, Diawara and Uri.

In finding the right technology (and the right partners for a joint venture) the first and most important thing is to establish clear objectives of what is wanted for a specific project and generally within the policy of a country, and then as a second step to set out on a systematic search.

Question: What are your views on joint ventures?

Reply: The vast majority of joint ventures have traditionally been established between one foreign multinational company and one local group in a given country. Unfortunately, a large number of these ventures mostly end up with the foreign company buying out the local partner, because of basic differences in understanding, in attitude, in business philosophy and in the terms of the venture. Foreign companies will normally plan for terms of 5 to 10 years. Many local investors, however, look for results, return and dividends much sooner. Joint ventures which are established between several partners on each side (i.e. the type favoured by ADELA) normally work out much better and are of permanent duration.

Question: What are your views on investment restrictions and incentives?

Reply: It is of great advantage if a country clearly spells out its expectations as to foreign investment and the requirements and limitations that it decides to impose on it. The more specific such legislation or regulations are, the better for foreign enterprises: they know clearly what they can expect and what conditions they have to meet. I believe most developing countries realize that there is a limit to the restrictions they can impose beyond which foreign capital will no longer be attracted.

The investment climate--i.e. the general attitude, in a country, of government and private enterprises towards the foreign investor-- is the most important factor for attracting foreign capital. The investment climate ultimately does not depend on the type of limitations and requirements a country imposes on foreign investment, but rather on its basic attitude toward foreign capital and on its record of honouring the rules of the game after the game has started.

There is, obviously, strong competition between developing countries for investment capital. It is generally a mistake to base investments in developing countries on unrealistic and therefore short-lived incentives. In the Andean Group, where the basic objective of Decision 24 is non-competition between the member countries as to foreign investment, the greatly varying implementation of the code from country to country operates to diminish or even defeat the purpose of the code. ADELA has no difficulties whatsoever with the code, because ADELA's policies-- conceived in 1964--are in conformity with Decision 24.

Question: Can developing countries hope to control the activities of multinational corporations?

Reply: I see no problems for developing countries with an orderly administration in effectively controlling the activities of multinational corporations. In Latin America, some 10 or 15 years ago, there were some loop-holes of which multinational corporations could take advantage if they wanted to be short sighted. Meanwhile, controls have been tightened and are being enforced. Multinational corporations generally intend to be permanent investors in a company or country. Consequently, they are not, in my view, interested in transferring profits on their equity investments. Massive transfer of profits only takes place alongside with massive flight of local capital at a time when confidence in a country and its Government is seriously eroding.

Question: How do you secure effective management in your operations?

Reply: A project stands and falls on the effectiveness of its management. We have less and less difficulty in finding competent management locally. Of the 130 ventures which we are presently involved in, only two (very young) enterprises have non-Latin American top management.

Question: Is the course adopted by ADELA the best means of accelerating developing countries?

Reply: I believe that the harnessing of the initiative, technology and capital of private enterprise within a market economy provides the most effective course for achieving an acceleration in socio-economic development. There is a fairly broad range of philosophies in the Latin American countries. ADELA is not trying in any country to convince the Government to adopt one or another philosophy or doctrine. We respect it, if a country feels there is no role for private enterprise in its territory; then there is no role for us. Development in reality is a process of education and training, of mentality and attitude. Change of mentality is the most difficult thing to achieve. Thus, the gap between industrialized nations and developing countries cannot be considerably narrowed (not to say closed) in the space of 5 or 10 years. It is a question of generations, probably one to two generations.

Question: Is ADELA's concept transferable in other regions? What do you expect ADELA's future to be?

Reply: In Asia, the Private Investment Company for Asia—PICA—(started some five years ago) is fashioned exactly after ADELA. There exists an African sister company of ADELA called SIFIDA (now in operation for 2 1/2 years).

ADELA will certainly not run out of opportunities, meaning work, in the future. We shall continue to be terribly short of capital, as we have been almost continuously since the beginning. I consider shortage of capital as a measure of success for entrepreneurial organizations.

Gilbert JONES
Chairman, IBM World Trade Corporation
and
Jacques MAISONROUGE
President, IBM World Trade Corporation

Summary of written and oral statement

The Report prepared by the Department of Economic and Social Affairs of the United Nations Secretariat to aid the deliberations of the Group of Eminent Persons deserves praise on three counts: it is balanced; it is realistic; it does not assume the alarmist tone that permeates so much of the literature on this subject.

On the other hand, it makes insufficient allowance for the wide spectrum of nations and multinational companies. No two nations have the same resources, per capita income, technical capabilities and skills. Nor do any two industries. While the Report does identify many industrial categories, it does not pursue their remarkable and significant dissimilarities.

Almost every major computer manufacturer in the world is multinational. From a laboratory birth during the Second World War, the computer industry has grown into a vast knowledge industry. Today close to a quarter of a million computers are installed. As the cost per 100,000 computations dropped from $1.26 in 1952 to one U.S. cent, the use of computers expanded dramatically.

The demand for computer capability is increasing in most nations. What matters now is the ability to use computers, not simply the ability to manufacture them. The computer can provide leverage for government, science and industry alike. Thus, data processing makes other types of advance possible.

One of the most important characteristics of the computer industry is its capital intensiveness, which affects IBM in three aspects: world-wide product development, world-wide product line, and decentralized decision-making.

1. World-wide product development

IBM Corporation's nine research and development laboratories in nine countries outside the United States work together with 21 laboratories in the United States. Our facilities are in areas where there is a market for our products and where we can tap the best talent available. No country has a monopoly on high technology today. In 1972 alone, IBM spent $676 million, equal to half the corporation's net earnings, on research and development in addition to unusually high outlays for education and training.

2. World-wide product line

Our products must be flexible enough to accommodate national requirements without basic change in design. The problems our products are designed to solve and the solutions themselves are not unique. Moreover, manufacturing the same products for world-wide use helps keep computer costs reasonable.

3. Decentralized decision-making

IBM strives to be attuned to local conditions and aspirations and to have national views genuinely represented in its decision-making process. (Virtually all of IBM's 117,000 employees abroad are nationals of the countries in which they work. In fact, all the Americans working for IBM World Trade Corporation outside the United States could be flown home in a single aircraft.) Our annual planning process serves to reconcile the interests of each national affiliate with the interests of the entire corporation. Decisions are taken at the country level on substantive matt such as profits and sales. At higher levels, decision-making consists mainly of reviewing the decisions reached by national managements.

The problems of co-ordination are also a major reason for IBM's policy of maintaining 100 per cent ownership of its subsidiaries. We are involved in three different but deeply interrelated activities -- hardware, software and services -- which require the allocation of resources on a world-wide basis.

The demand for participation in ownership can often be translated into a demand that a company put the interest of one subsidiary above that of the entire company. In our opinion, investors should share in the world-wide company. IBM is listed on 12 major exchanges outside the United States. Tens of thousands of foreign nationals -- including 38,687 of our own employees abroad -- own IBM stock.

In a developing country, the Government itself is usually IBM's major customer. Government installations over-all amount to about 9 per cent of total computer sales. In developing countries, this figure may reach 90 per cent or 100.

By the very nature of the service we offer, we help developing economies cross the threshold of modernization into the new territory of self-sustained growth and development. Thus, high technology serves as a great equalizer, narrowing the development gaps between nations.

Today, the United Nations is confronting an important question, as stated quite simply in its Report:

"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."

Perhaps such institutions and devices can be created. But it is essential that they should be realistic and flexible enough to cover the various kinds of multinational companies that exist.

Our concern is that guidelines might develop which, though intended to correct excesses, might actually upset the special conditions an industry such as ours needs if it is to continue to play its key role in development.

They might lead to reduced remittances or the dispersal of manufacturing and research and development capability or divided ownership or local control.

Such moves would cripple the effectiveness of many high technology companies, including IBM. Ultimately, they would seriously limit the contributions multinational companies can make to development.

The United Nations Report also contains proposals which would establish a code of conduct or at least a multinational company register. As the Report suggests, drafting a code acceptable to all would be extremely difficult: a rather general and unenforceable document would almost certainly result. Nevertheless, we feel the proposal should be pursued.

There are five points we would like to see in such a code:

(a) Employment of nationals, totally or predominantly, in affiliates;

(b) Multinational representation at headquarters and on boards of directors;

(c) Stock ownership on a multinational basis;

(d) Adequate guidelines on transfer pricing;

(e) The judgement of a company's performance, particularly in a developing country, based to a degree on its performance in the area of social responsibility.

Much is at stake. As a high technology company, one that invests heavily in people, research and facilities, we are keenly aware of our responsibilities - to our employees, customers, host Governments and stockholders. Many of our concerns are unique. We hope the special situations that exist in our industry, and others, will be taken into consideration as your deliberations proceed.

There is a school of thought that sees the multinational company and the nation-State on a collision course. We do not believe this to be so. The two, in our judgement, will work out the differences between them and travel parallel courses, complementing and enriching each other.

Summary of replies to questions*

Question: Where and how can research be undertaken to develop technologies appropriate to the economies of host countries?

Reply: An important distinction has to be made between various kinds of technology. Generally, however, if the problems to be solved are the same, there is no reason why the tools should not be the same. If penicillin worked in England, it should be possible to use it elsewhere. Likewise with regard to computers. In the banking system, for example, the needs of banks, whether in Nigeria, France or Japan, are essentially the same.

When we introduce a new product line, it is sometimes suggested that we see whether the old, less sophisticated product line could be used in Africa or countries of Southeast Asia. However, IBM already knows that the users in those countries -- whether Governments, banks or other commercial enterprises -- want the most modern and best equipment available. So I think that it is not really up to IBM to decide what its customers should want to have. It is up to the local market and the Government to guide the R&D effort of the corporation. We have just announced a special line of products in India which meets the requirement of the Indian market better than the requirements of any other market. And we have been doing this for years.

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* Mr. Jones replied to some of the questions. Questions were asked by the Chairman and Messrs. Mansholt and Matthoeffer.

Question: What are your views on joint ventures?

Reply: Two problems are involved in sharing ownership: the price of IBM's stock and world-wide management of our resources.

IBM is owned internationally by 145 million pieces of stock valued, at current prices, at about $40 billion. To sell off part of it to minority interests, you must first buy back the stock from the people who own it. You might assume that since IBM World Trade provides half the profit, it is worth half the price, or about $20 billion. However, since IBM World Trade is the fastest growing part of IBM, it is more reasonable to assume that the stockholders would not sell that portion for $20 billion: they would want substantially more, probably around $40 billion. And suppose you wanted to sell an interest in IBM Germany, one of our fastest growing subsidiaries, which represents roughly 25 percent of World Trade — my guess is that the stockholders would want a price again in the area of $40 billion for that subsidiary alone. In any event, you come up with a very difficult price to meet. Where would the funds come from?

Second, there is the way we optimize our resources by world-wide product development and a world-wide product line manufactured in plants specialized by product. Every IBM computer system is designed in several laboratories around the world and manufactured in several plants. Trying to fit this kind of product into subsidiaries with shared ownership raises all kinds of management-control problems. Where would a new product be sourced? Who would buy the first product off the assembly line? Who would be willing to handle low-profit products?

Under 100 per cent ownership, IBM has only one company to optimize. This enables IBM to be represented in most developing countries We go into a developing country and operate at a loss. We invest for many years. In the country of one of the members of this panel, for example, we went for 11 years without a profit. And I submit to you that if our subsidiary there were only partly owned by IBM, it would be very hard indeed to get people to buy that company's stock.

We believe in multinational shareholding in IBM and that is why we encourage the listing of IBM's stock on as many stock exchanges around the world as possible. We believe that the interests of an investor in IBM are best served by investing in the entire company instead of a partly-owned national subsidiary.

Question: Can you give examples of a job-producing technology which has been developed according to the needs of the developing countries?

Reply: We in the computer industry are very lucky because our product is essential to the economic development process. Indeed, the computer is a tool that can assist in reducing disparities among nations. IBM employs some 14,000 persons in developing countries and has trained thousands of others. We co-operate with universities, technical and other schools in the developing countries to help train computer operators, programmers and application developers, in places like Ibadan, Nigeria, and elsewhere. We run schools for high school grades and we have taken students out of high school and taught them computer skills. And most of those people have gone on to good jobs, operating computer installations and further developing their know-how.

John MORGAN
Adviser on Multinational Corporations,
International Council for Social Welfare

Summary of written and oral statement

The readily available information about multinational corporations is almost entirely economic data. Consideration by the United Nations of the impact of this development on developing nations and on world affairs has been, thus far, largely confined to the boundaries of economic matters. It is the position of the International Council on Social Welfare that the problems of social welfare associated with the growth of multinational enterprise must be seen and studied within a broader context, of which economic concerns must be an essential part together with political, ecological and social concerns, and that the problem must be viewed in the long as well as the short term. It is the view of ICSW that much critical social data already existing within the United Nations family of organizations and available to it should be reviewed in relation to the social implications of multinational enterprises. Among the available data to be examined should be the growing literature of research on social indicators.

The Council suggests for further discussion that information should be collected and analysed under the following heads, in relation to the impact of multinational enterprise on the social well-being of the communities affected:

(a) Housing and living conditions of families and persons not employed directly by multinational enterprises;

(b) Food and nutritional patterns;

(c) Child-rearing and child care patterns;

(d) Educational organization and services;

(e) Demographic data, especially such matters as age groups within populations, life expectancy, retirement ages etc.;

(f) Patterns of land ownership and land use;

(g) Patterns of wealth and the distribution of wealth and income;

(h) Health and health services;

(i) Transportation;

(j) Community life and community organization, including local participation in Government and industrial decision-making processes.

The Council also urges the need for local development plans and strategy that take account of the growth of multinational enterprise.

The Council has tentatively classified the social implications of the growth of multinational enterprise into three major categories:

1. <u>Social infrastructure of communities affected by multinational enterprise</u>

(a) Community investment in public services;

(b) The social and political organization of local communities;

(c) Family life;

(d) Community organization.

2. <u>The "reward-structure" of multinational enterprises</u> as compared with

(a) Established patterns of local significance;

(b) The needs of developing industrial communities.

3. <u>Environmental consequences of multinational enterprise</u>

The Council endorses the suggestions for action summarized under the heading "Towards a Programme of Action" in the United Nations Report and makes the following recommendations:

(a) That the matter of the social implications of multinational enterprise should be referred to appropriate bodies within and associated with the United Nations for further study. The Council is aware of the substantial work that has been done in this field by the International Labour Organisation. It believes the subject to be appropriate for study by the Commission for Social Development, the Centre for Social Development and Humanitarian Affairs and the United Nations Research Institute for Social Development;

(b) That multinational enterprises should be encouraged to support or to undertake studies of the social impact of multinational enterprise;

(c) That there should be some attempt to define precisely the social obligations of the multinational corporation as a 'good citizen' in developing countries;

(d) That the taxation problems referred to in the United Nations Report, including expecially matters related to social security and the tax implications for ecological and social infrastructure, should be studied;

(e) That studies of labour problems should be extended to include consideration of community and family problems of workers affected;

(f) That consideration should be given to long-term social consequences of multinational growth;

(g) That proposals for technical assistance and training in relation to the growth of multinational corporations should include appropriate social scientists as well as "economists, lawyers, engineers and business managers" as proposed in the United Nations Report;

(h) That any "guidelines" or "general agreement" on the principles to be observed by multinational corporations should include basic principles in relation to home and host countries on social affairs;

(i) That a working party should be established by the United Nations to examine in detail the social implications of multinational enterprise for development.

Summary of replies to questions*

Question: Is data regarding the social implications of MNCs available?

Reply: It is the position of the International Council on Social Welfare that a great deal of the relevant social data probably exists within the network of organizations associated with the United Nations. Much of this data is not of an economic character and, in order to study the social implications of multinational enterprise, it is essential to reach out beyond the economic aspects of its growth. Several of the relevant agencies have been noted already. It is the view of ICSW that the social questions raised by ICSW and others before the Group of Eminent Persons should be examined by at least these and other appropriate agencies.

Question: What are the special characteristics of multinational development that distinguish it from any other form of industrial development in a developing country?

Reply: It is the position of the International Council on Social Welfare that development by a multinational corporation differs in at least two ways from that due to local industrialization.

(a) The ultimate decisions about development, which may have long-term social and economic consequences, are usually made in the 'home' country of the relevant corporation, without special reference to the social and political implications for the 'host' country and without effective local participation in the decision-making process.

(b) The criteria upon which ultimate decisions about development will be

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* Questions were asked by Messrs. Schaffner, Dunning and Mansholt.

based are likely to be largely, if not entirely, economic grounds related to the economics of the enterprise rather than to the social, economic and political needs of the 'host' country.

Thomas A. MURPHY
Vice Chairman of the Board
General Motors Corporation

Summary of written and oral statement

The decision of the United Nations Economic and Social Council to initiate the study of the impact of multinational corporations on the development process and on international relations provides an excellent opportunity for exchanging viewpoints.

The following remarks focus essentially on the study objectives defined in the Report: "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 operation of multinational corporations

It is appropriate to examine this issue from two points of view. First, with respect to the "multinational corporations' exercise of power," it should be clear that these corporations exist at the will of the State and that their activities are governed by the laws, policies and customs of the countries in which they operate and by the consumers they serve. Their size arises not from power but from service — service to customers and to markets. They have a broad constituency which votes every day in the marketplace and determines their continuing success — or their decline or, at times, failure. It follows that crude comparisons between corporate sales volume and the Gross National Products of individual countries, which attempt to equate power with size, are both misleading and meaningless.

As a world-wide business, General Motors' objective has been to function as a good citizen and to operate within the framework of the law and the policies of each country where we have operations. Where this "framework" did not, in our judgement, permit viable commercial enterprise, General Motors did not establish operations. In a few instances, where national policies were changed to the extent that an existing operation could not, in our opinion, function efficiently, operations have been discontinued. Given the prospect of a sales potential for our products, however, General Motors' policy has been to adapt fully to the laws, policies, customs and values of each country. This approach is absolutely basic to General Motors' operations world-wide.

Beyond the fact that the corporation and its subsidiaries must respect the sovereign power of each nation, there is the ever-present commercial discipline under which the corporation as a whole and its subsidiaries must operate.

The multinational corporation must assume the commercial risks of each venture and there is no denying the fact that the risks are larger in the developing countries than in those with clearly established demand, supply sources and channels of distribution. New ventures are undertaken in the hope that they will prove profitable. The host country cannot and is not expected to assure the business that it will be a commercial success. If our experience is any guide, it is often necessary to wait for years for this goal to be reached — and in some cases, success may never be attained.

The concept of "corporate power", therefore, is not, in our judgement, either meaningful or useful — corporate power exists only because of willingness to take risks and in terms of each subsidiary's skill and ability to win customer acceptance. Admittedly, the world-wide enterprise has resources — it has technical competence; it has capital and it has management ability. It can combine these wherever it appears that they can profitably be used. It is this fact, and this fact alone, that underlies the growth of world-wide business.

Accountability of multinationals to the international community

The second part of the question — that of introducing "some form of accountability to the international community" — extends to considerations of the harmonization of national laws. The issue here may not be so much whether sovereign nations would be willing to make the adjustments in domestic laws and national goals which such harmonization may require. They would have to take into account understandably diverse aspirations and stages of industrial development of nations throughout the world community, while at the same time providing a viable framework for the expansion of world commerce and investment. It may be useful to examine these issues in light of General Motors' participation in world markets, with special emphasis on developing countries of the world.

GM and the developing countries

Typically, in the case of motor vehicles, a developing country for national policy reasons will establish so-called "local content" regulations which require assembly and manufacturing facilities to follow a time schedule leading ultimately to producing a vehicle entirely from local sources. By gradually reducing allowable imports, a domestic motor vehicle industry is thus created. For example, the "local content" requirement in the manufacture of passenger cars in Mexico is now 60 per cent, in South Africa 57 per cent, in Argentina 96 per cent and in Brazil 100 per cent.

One point deserves special emphasis. The world-wide expansion of the motor vehicle industry was not motivated by a search for low-cost labour or tax advantages, as critics of multinational firms frequently allege. On the contrary, it is often the case even today that, in the absence of national development policies, a country's motor vehicle demands could be met at lower cost through imports than local assembly or manufacture.

General Motors' participation in developing countries is growing rapidly and, in fact, has almost doubled in the past seven years, outpacing the growth in our total overseas participation.

In every country where we have facilities, our contribution to society goes well beyond the manufacturing of motor vehicles and its attendant generation of income and employment. Our subsidiaries are actively engaged, either directly or through financial contributions, in areas of education, health, welfare, culture and sports.

The role of complementation

Some of these countries, however, are not yet able to support a full-fledged motor vehicle industry at economic levels. One promising approach to overcome this is an extension of the concept of mass production through complementation based on government co-operation. Complementation means the organization and distribution under government sponsorship of vehicle component manufacture and assembly among a group of countries, giving each a specialized production responsibility commensurate with the market potential for the entire area. Those countries that manufacture components of the vehicle export to the country or countries in the group that assemble the finished vehicle. They import finished vehicles in return. Because the volume potential for the entire area is larger than any one country, the costs of both the components and the vehicle are reduced.

The basic transportation vehicle

General Motors programme in Southeast Asia underscores one unique and, I believe, key factor in the world-wide growth of vehicle manufacturing companies. General Motors has recently developed what we call a Basic Transportation Vehicle (BTV). It is a low-cost product requiring a minimum of sheet-metal fabrication and designed with emphasis on ease of assembly and repair, and low operating cost. All components except the major highly engineered components such as the engine and transmission, are being produced in Malaysia, Portugal, Ecuador and the Philippines. The BTV in Malaysia is selling at a price over 30 per cent lower than that of an imported small pick-up truck, our closest competition, price-wise, in that country.

The implications for international relations

Given the diversity of national policies and regulations, it would seem that the implementation of proposals to superimpose international accountability would only confuse the already complex challenge of international business.

The procedures established under the General Agreement on Tariffs and Trade point, we believe, to an appropriate mechanism for the establishment of procedures and agreed national policies governing international investment. Under the GATT, very substantial progress has been made in reducing trade barriers on an internationally agreed basis. The time may now be at hand for the careful consideration of a companion agreement — a General Agreement on Investment. The harmonization of national policies in areas such as tax policy and industrial pollution abatement, while admittedly difficult, would, in itself, be a significant step forward. Equally important, international study of impediments to the free flow of investment funds and agreement on means for reducing these impediments could make a measurable contribution to the steady improvement in the quality of life which nations in all stages of development seek.

Summary of replies to questions*

Question: What are your views on restrictions on the right of a subsidiary to export?

Reply: In GM's case, it has not placed any restrictions on any subsidiaries as far as their export potential is concerned, but for the most part a subsidiary operation is designed to pursue the opportunities in the host country where it is based. Essentially, that is the reason they were organized, and that is the opportunity GM expects them to develop. Now, if they have a product they can offer competitively in another country, GM has not put any restrictions on them in that sense.

Questions: Where and how can research be undertaken to develop technologies appropriate to the economy of the host country?

Reply: GM goes into a country and tries to understand the needs of that country and how best it can serve those particular needs.

It is GM's opinion that, in all of these countries, the most progress can be made for the company and the host country if it concentrates on making the most of growth opportunities, developing the demand, and therefore broadening the opportunities for every person in that country. GM does not think it makes any sense to hold back the technology. The better the technology and the methodology that are used, the more rapidly

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* Questions were asked by the Chairman and Messrs. Matthoeffer, Mansholt, Prebisch (consultant), Dunning and Weinberg (consultant).

the economic development of the whole country can be advanced, and jobs will follow. GM does not think that you can, in any circumstance, develop an opportunity by trying to keep the technology — the modes of operation that are more efficient — away from that particular market.

Question: Can you give an example in which GM has made a special effort to adapt its technology to create, in a special way, more jobs than by simply transferring technology?

Reply: In GM's opening statement reference was made to the Basic Transportation Vehicle (BTV). It is not the most modern technology in terms of what can be adapted in some of the more advanced countries, but it is something that GM feels is tailored to the needs of developing countries, where the BTV can be substituted for the ox-cart and back-breaking labour. This basic transportation vehicle will do the job efficiently in terms of what is needed in that country today. In other words, a product that is an adaptation from the more advanced technology here in the United States — to a more useable technology — a more efficient technology for the particular country.

Question: In negotiating the setting-up of subsidiaries in developing nations, has GM met requests from Governments for as many labour-intensive production methods as possible?

Reply: GM has found that Governments negotiate with that idea. They are interested in employment and there is recognition both on their side and on GM's that the maximum employment opportunity is going to come by getting the best, lowest-cost vehicle that can be produced in that country, so that increased sales can create further employment opportunities.

GM thinks that transportation is basic to these countries and in order to get their economy advanced on a broad scale they have to establish very quickly a transportation capability because that is the backbone of their whole development. They are concerned with getting an efficient transportation industry developed just as early as they can. For the most part, GM's objectives and the Governments' goals are in consonance, and GM and the country have been able to move forward and make progress together for the country and for the people who are living there.

Question: Has GM encountered any disruption in the society of a developing country through the introduction of highly sophisticated, highly technological methods of production? Does GM entertain as an alternative more labour-intensive, more conventional ways of doing the required work, as opposed to more modern methods of production?

Reply: In the long run, efficiency in the utilization of both capital and labour to the maximum degree is going to be the best solution. Furthermore, the BTV is a good marriage of technology: the power train was built in the developed countries and then the developing country, using its own labour, finishes the BTV by fabricating and placing the body onto the power train. That is utilizing the labour in the country and at the same time using the advanced technology available. Also, the question of ways to use more labour is a case of looking at the country, the situation that it finds itself in, and the assets that country can mobilize most efficiently for the benefit of the entire country and its people.

Holding back technology in favour of using labour is not in any sense in the best long-run interests of the host country.

Question: Could the BTV have been produced five or ten years earlier, if in some way or another GM or the motor industry as a whole had been subsidized or given some sort of research grant, or given opportunities for them to co-operate with research institutions to produce this type of vehicle?

Reply: No subsidy was necessary. Certainly, the need for transportation other than oxcart and the hand-drawn vehicle has probably been present for a period of time. In evaluating the sales potential in each country, GM tries to look at every available business opportunity and then see whether it could pursue that opportunity with existing products or any products that could be readily developed. Now, perhaps GM should have been more alert in this basic transportation area, in getting in there earlier. However, GM is moving aggressively now and is exploring possible new opportunities that it has not considered before.

Question: Upon occasion, changes in national policies have resulted in the withdrawal of company operations. Should the withdrawal be a company decision or a Government decision?

Reply: Where General Motors has withdrawn from a country or made a decision not to go into a country, those situations came about primarily because of the exercise of the sovereign right of a particular country in laying down the rules and regulations under which the country could accept an investment. The country exercised its sovereign power and effectively stopped GM from having what it considered to be a viable investment in the country.

Question: What are your views on international fair labou

Reply: General Motors believes in fair labour standard

Ralph NADER

Summary of written and oral statement

A most serious international problem caused by "worldcorps" is the way they manipulate or play off nations, Governments and rulers against each other. Since they operate globally, and nation-States do not, they can exploit weaknesses in the policies or laws of specific countries. Just as the state of Delaware is a corporate Reno (Nevada), so are Panama, Liechtenstein and Switzerland, in their ways, global Delawares.

The result is that some nations are becoming dumping-grounds for products and facilities that multinationals have trouble selling elsewhere. So Pepsico sells its inventory of cyclamates abroad after they have been banned as hazardous to human health in this country. So Parke, Davis and Merck and Company sell Choloromycetin and Indocin, respectively, abroad without the cautionary contraindications of danger required in the United States. And firms which seek out the cost-free method of waste disposal known as pollution end up residing in the countries with the most lenient environmental regulations.

Unions are especially frustrated by this playing-off of nations, since striking an International Telephone and Telegraph subsidiary in Spain simply means that ITT increases production elsewhere or lets the strikers cool their heels while its empire suffers little. The leverage enjoyed by striking workers, which was one of their only points of power in corporate contests, is vitiated. Worse, firms are attracted to places with low wages and strong anti-labour laws. And those countries which do try to emulate our labour movement's efforts to upgrade working conditions and pay are met with the threat of corporate flight.

Taxation, the balance of payments, and the international monetary system also allow the multinationals to display their global creativity. First, firms seek out tax havens, Taiwan and the Cayman Islands being examples, for the promise of a decade or two of tax-free production. When a worldcorp has subsidiaries in many companies, it can manipulate pricing to disguise accurate earnings and minimize its tax payments. Accounting gimmickry permits firms to pass on costs to host countries where taxes are low, or to those countries with sound currencies and little inflation.

Thus the worldcorp becomes a pump primer for instability and inequality -- often alternatively described as the rich getting richer and the poor getting poorer.

The cost of these manoeuvrings becomes glaring when one looks closely at multinational corporations which dominate their host countries. The problems, first of all, are sheer size, external control, and escape from responsible political control by the host country. The largest 10 "worldcorps" (by sales) are bigger than some 80 nations (by GNP), and the largest 40 firms are larger than some 65 nations. Complicating size disparity is the obvious conflict between a worldcorp seeking profits and the nation-State seeking public welfare. The two quite obviously do not invariably overlap. Consider the following choices facing a country: should there be investment in future producer goods or present consumer goods; should emphasis be on the military or civilian sector, the public or private sector; should it stress human resources or physical assets, full employment or not inflation; should there be more or less automation, higher or lower prices; how is economic growth to be balanced against environmental preservation; should a worker's benefits be based on value or welfare; should we have a State-run or a competitive economy; should economic policy emphasize licensing and loans over controlled technology and equity investment by these worldcorps? The answer to each varies with the development, culture, and demography of each country. What is right for the United States is not necessarily right for China, or Sri Lanka. The cardinal standard is that the choices should belong to the people who live in each country and not to a tiny number of anonymous and distant corporate executives in the West and Tokyo, whose power vastly exceeds their accountability to these people they so deeply affect or afflict.

But who is to decide all these questions? The issue is one of control: who, in fact, controls an economy when a dominant multinational firm can pick up and leave if the local rules are changed to its displeasure? "Increasing numbers of a poor country's economic actors become responsible to superiors... who are citizens of other countries," observed Peter Evans in a recent book, Transactional Relations in World Politics. "If a similar chain of command existed in public organizations, the peer country would be deemed a colony." This point is most applicable to Third World developing nations, but it is not only applicable to them. Canada, nearly half of whose industry is owned by United States firms, understands what it means to be a branch plant economy. So does Chile, 40 of whose largest 100 industrial firms are foreign-owned. Even the United States is not immune to a firm contemptuous of national borders or authorities. When the Federal Trade Commission recently brought an action against Xerox, the firm at first would not even meet with Federal Trade Commission representatives, saying, "We don't believe that the Federal Trade Commission is the appropriate forum for the resolution of the problems of multinational corporations." They did not explain what was the appropriate forum.

The profits of worldcorps are often lush. Ronald Muller studied the rate of return on net worth for 15 pharmaceutical subsidiaries in Latin America, and found that it ranged from a low of 44.2 per cent to a high of 962.1 per cent, with the average return being 136.3 per cent. Looked at more broadly, in 1950 and 1965 the profit inflow to the United States from Third World investments was 264 per cent of its capital outflow, while the equivalent percentage for Western Europe was 71 per cent. Such profits could not exist with the competition that multinational firms can frustrate. Exacerbating this exploitation is the fact that so much after-tax profit is repatriated to the domestic United States, as multinational firms indirectly admit. If their investments help the United States balance of payments because of repatriated profits, as they claim, the surplus must come from somewhere, and the somewhere is the developing nations. This exchange can also regressively distribute income -- from the relatively poorer class who produce the goods to the relatively rich foreigners who own the stock of these firms.

With returns so large, it is predictable that worldcorps should often take political measures to protect their investment. Just as Du Pont has turned Delaware into a company state, International Telephone and Telegraph apparently could not resist trying to shape Chile in its own image. Where investment goes, so does well-planned, behind-the-scenes politics, often with the close assistance of the United States or other Governments of worldcorp domicile. Thus multinational enterprise can move a Trojan horse to developing countries. Alluring at first, it can undermine local investment, dominate technological development, exploit cheap labour and pervert local politics.

It is altogether fitting, then, that the United Nations, a multinational entity, should scrutinize multinational corporations. The time is late, but the opportunity remains to finally hold these firms accountable to more than their profit statements.

Second, the United Nations must collect and publish far more specific data about multinationals. There is simply insufficient data presently available to formulate effective policy; and studies which have been completed were done by already compromised institutions. For member States even to approach passing the laws necessary to contain these firms, or for the United Nations to formulate intelligent policy, there must be accurate and available data about multinational firms. We therefore specifically recommend that the United Nations should send out questionnaires to the top 200 multinational firms and their host Governments in order to obtain such information as: (a) who owns what land, mineral and other resources in each country; (b) the amount, origin and nature of new investment; (c) the firm's total income; (d) payments received on royalties, patents, licenses and management contracts from foreign affiliates; (e) ties and interlocks with other financial, industrial and government corporations together with credit and debit relationships; (f) the amount of taxes paid by country, etc.

A basic way to hold corporations more structurally accountable, even international corporations, is by building controls into their birthright -- the corporate charter. The charter is effectively a contract between the State and the firm; you can incorporate to provide a service or product, the State says, if you follow certain conditions in the public interest.

But many nations have weak chartering laws in order to induce corporations to remain or locate there. Thus, all are driven down to the lowest common denominator in the "competition" for corporate business. As a preliminary course, nations could be encouraged, under United Nations initiatives, to formulate parallel and strict terms in their chartering mechanism, covering such areas as corporate disclosure, anti-trust, shareholder rights, management liabilities, and affirmative duty to report on a wide variety of matters to all nations where the firm is doing business. A "law corporate" can be developed, much as the "law merchant" evolved in the past, only much more quickly.

Summary of replies to questions*

Question: Can the multinational corporations be regarded as homogeneous? Is not your criticism really of the international economic system as such rather than of the individual multinational corporations?

Reply: In terms of their centralized private power and the absence of any informed and participatory constituency, whether it be shareholders, workers, or consumers' or other groups, multinational firms are very similar. Now this, of course, is posited on a philosophical rejection of any economic institution that is centralized. I do not think, for example, that any three human beings should have the power to redirect the policy of a $10-billion corporation toward a foreign Government or toward a foreign-investment policy. Whether that is a good practice or whether it is a bad practice is immaterial when we get down to our basic philosophic level of economic democracy. I simply do not see how the international economy, if it is geared towards human welfare, can tolerate that kind of centralized power. We know that in government, when we have that level of centralized power, we call it a dictatorship, we call it totalitarianism; or if it is less than that, that is, if it has a more distributive character but is still very centralized, we call it a bureaucracy, we call it "stifling

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* Questions were asked by the Chairman and Messrs. Browaldh, Komiya, Mansholt, Dunning, Ivanov, Diawara and Estrany y Gendre.

government inefficiency." I do not think that bureaucracies, because they are called corporations, are any more immune from depriving themselves of wiser deployment of economic resources or of wise diffusion of them than similar concentrations in government.

I also would make a difference in kind here, as well a difference in degree. It is significantly different that you now have corporations selling well over two or three or ten billion dollars a year with much newer and awesome technology than you did 30 or 40 years ago. You had multinationals 30 or 40 years ago. It is a difference in degree which is really quite significant, as we can see through the recent Congressional Report, indicating the impact of financial transfers of multinationals on international currency stability.

Question: What can be done to develop an enforcing mechanism to implement an international agreement on multinational corporations?

Reply: This discussion is based on the assumption of a continuing and international economic system characterized by increasingly large multinational corporations. If we discuss the problems within that framework and do not talk about alternatives or displacement systems, I think we have to recognize the following point; that we will never get any fundamental reform, we will never get an expansion of the potential of these aggregates of capital without bringing the issues to the people all over the world. The best ideas in the world are not going to catch hold, (unless they simply sustain the status quo),unless a larger number of the world's people are brought to a focus of concern of these issues; and, as you know, right now, you could not get many Americans to watch a television debate on multinational corporations, especially when the professional football teams are playing. So what we need — and this is very difficult for a group such as this, I think to implement without a sort of public jolting which I am not here to effectuate — is somehow to develop a mechanism where the legitimately documented abuses, where the potentialities, where the differential kinds of behaviour between these companies can be conveyed in their human and real day-to-day terms to the world's people.

Question: Would the world's people be better off if multinationals were to be replaced by other forms of production, or if a system was devised to make them behave better?

Reply: The answer is "yes" to both of these. More ideally, I think the world's people would be better off with a highly competitive decentralized economic system heavily patterned after a co-operative form of organization with strong consumer control at the local, regional and national levels. I think, quite clearly, that economies of scale are permissible for co-operative type organizations and technological development is possible in co-operative-type organizations. I think also that there has to be a new way of generating entrepreneurism — local entrepreneurism — which will work in the areas that the multinationals have absolutely no interest in.

Question: If we assume the existing structure of multinationals, however, what can we do to try to improve their behaviour?

Reply: First of all, we must recognize that the anti-trust laws are not enforced in most countries. One thing that can be done is to require at least that if these companies are going to operate, they compete with one another. They cannot have it both ways. They cannot say they do not want socialism and then develop a corporate type of socialism in their own right. Either they compete -- and I am talking not only about price competition, I am talking about technology competition, so they do not collude over the suppression of new technology -- or they must be viewed as indeed what they would ordinarily be, which is a kind of state capitalism that should be subjected to far, far more explicit public participation and ownership.

Second, the entry of a multinational into an economic relationship in a particular country can be conditioned. For example, I happen to believe that our country would not have developed as rapidly as it did, if it had not been for the fact that we took credits instead of equity in developing industry; that in the nineteenth century, for example, a great deal of money was borrowed from England and it came in the form of credit and not so much in the form of equity ownership. We had a very chauvinistic approach to foreign multinational corporations in the nineteenth centruy. We should remember that the United States in the nineteenth century and the early twentieth century was about as antogonistic to foreign ownership as any nation in the market world today. In fact, it was almost a cause of casus belli for a foreign corporation to come in and take over a large area or a segment of the industry.

And then there need to be political restrictions placed on behaviour. This is absolutely essential to the proper economic of these corporations. I do not think there will be an adequate solution to the political activities of economic institutions unless there are serious limits placed on the home countries' intrusion when there is a dispute in the host country with that multinational corporation.

H.M.A. ONITIRI

Director, Institute of Social and Economic Research
University of Ibadan, Nigeria

Summary of written and oral statement

The report of the Secretariat, Multinational Corporations in World Development, has drawn attention to many of the important issues arising from the unprecedented expansion of the multinational corporations, and has brought into focus the dangers that lie ahead if action is not taken in time to control their activities. For what is at stake is the control of a large proportion of the world's productive capacity by relatively few enterprises, based in the developed countries, whose primary objective is private profit rather than the maximization of global economic and social welfare.

But the pace of events is so swift that studies rapidly become out of date. Events involving multinational corporations and their interference in national politics are being dramatized at this very moment.

In many countries current trends in policies toward multinational companies are manifestations of a normal and inevitable process of evolution from the economic dependence of the past, in many cases associated with colonial regimes, into the mainstream of an inter-dependent world economy. A just and fair deal for the developing countries in an inter-dependent world economy should be supported and guided by the international community as an earnest expression of its desire for a better distribution of income in the world.

Although both home and host countries are concerned about the activities of multinational corporations, the Group should concentrate on the problems faced by host developing countries, especially the least developed among them. The problems in these countries are urgent. Millions of children are going to grow to adulthood -- if they survive -- without having had the opportunity of drinking so much as a glass of milk.

The developed countries are in a far stronger position to deal with many of the issues arising from the multinational corporations, on their own or collectively; the level of advancement of developed host countries and the strength of their labour unions is such that they are in a position to negotiate effectively with multinational companies and deal with the undesirable consequences of their activities. There is a difference between negotiating in Detroit and negotiating in South Africa. A multinational corporation in Detroit cannot call in the police to shoot down those who are negotiating for higher pay, as was the case in South Africa only a few days ago when twelve miners were shot dead and several others wounded.

The standards adopted by multinational corporations in developed home or host countries are very different from the standards that they maintain in developing host countries. Furthermore, the extension of multinational corporations in developed host countries must be considered against the background of recent trends in the trade relations among developed countries.

The contribution of the multinational companies to the growth of exports of manufactured goods from developing host countries is far less significant. The examples of Hong Kong, Puerto Rico and South Korea are almost unique. For the most part, the activities of the multinational companies in many developing countries are still concentrated in the traditional extractive sectors and in the production of import substitutes behind protective tariff walls. Exports of manufactures still constitute only a small proportion of total sales, as illustrated by the example of United States mining and manufacturing affiliates, at least in Central and South America, as shown in Table 41 of the Secretariat report.

In addition, for developing host countries, the financial transactions are almost entirely in one direction, with outward flow of investment income absorbing in some cases a substantial proportion of their export earnings. Developing countries, especially the least developed among them, which are mostly African, are in a state of virtual dependence. As the report of the UNCTAD secretariat on restrictive business practices notes, "The sales of Royal Dutch Shell Group at $9.30 billion exceeded the individual gross national products of all developing countries in Africa, of all those in Latin America, except Argentina, Brazil and Mexico, and all those of Asia except India and Pakistan."

The Secretariat report rightly recognizes that "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". But an international economic system which does not serve the aims of the International Development Strategy cannot bring about the "greater measure of international distributive justice" to which the report refers.

The question that then arises is whether an international economic system based substantially on the operations of the multinational corporations as the main force in international trade and investment can bring about the desired increase in the welfare of a vast majority of the world's population.

Four reasons can be given why multinational corporations cannot play this role.

First, the size and world-wide reach of the multinational corporations cannot obscure the fact that in each case only a handful of people set their goals and the main direction of their policies. Indeed, one can envisage that, as the technology of control and decision-making improves, the situation may arise where a handful of people sitting behind a battery of computers will control and direct the interests of millions of people in the vast majority of developing countries.

Second, while it is true that, as the Secretariat report says, "the multinational corporations have developed distinct advantages which can be put to the service of world development", profit maximization remains their central objective. There is no guarantee that the fruits of their efficiency will be equitably distributed either between the corporations and host countries as a whole, or among the host countries themselves. The existence of more powerful trade unions in the developed host countries may tilt the balance of advantage in their favour.

Third, while multinational corporations have tried to improve their image in recent years, there are still many areas where their operations follow more or less the old pattern. As in the case of Rhodesia or South Africa, their policies in these areas run counter to the basic aims of the United Nations, the Declaration of Human Rights and the Charter of the International Labour Organisation. International pressure -- including pressure from home countries -- has on the whole had a marginal effect.

In examining a question that has such wide political implications, the Group of Eminent Persons cannot ignore the impact of the activities of multinational corporations on minority regimes, particularly in Africa.

A final reason why the extension of the power and influence of the multinational companies within the framework of the international economic system is viewed with suspicion arises from the slow progress recorded so far in the implementation of the International Development Strategy.

The lack of determination shown by the developed market-economy countries in implementing the Strategy, coupled with their stated preference for private investment rather than official development assistance, has resulted in multinational companies being vested with the power to determine the outcome of the Strategy and to be the main vehicle for the transfer of resources to the developing countries.

In the present circumstances, it is not inconceivable that a poor country, starved of foreign exchange, overburdened with foreign debt, and struggling to implement a modest development programme, will, in the absence of alternatives, readily enter into various agreements with multinational corporations on unequal terms, reflecting its weak bargaining position and its desperate pursuit of a modest rate of advancement.

What good can the multinational corporations do? While it would not be in the best interests of the developing countries to allow the multinational companies to be the main centre of the international economic system or the main channel for the transfer of resources to the developing countries, their contribution to development can still be significant. However, their methods of approach would have to be radically different from the old pattern; they would have to accept, increasingly, the role of minority partners; to give up sovereignty over local natural resources, and to clearly identify with the national interests of the countries they operate in. They would have to become more involved in the development of technology appropriate to the developing countries, and, above all, they would have to refrain from interference in the domestic affairs and local politics of the host country.

The acceptance of such ideas will no doubt contribute to the development of a more harmonious atmosphere.

The Secretariat report discusses possible measures and institutional arrangements at various levels for dealing with the issues raised by the multinational corporations.

Of the suggestions for institutional arrangements at the international level, the most controversial are likely to be the ITO and GATT type of agreement. Aside from the perennial question of who will have the controlling voice in such organizations, there will be the problem of reconciling the conflicting interests of home and host countries on issues in which political and economic considerations are so closely intertwined. In fact, this arrangement might pose new problems by giving the multinational corporations added power and respectability without any guarantee of benefits to the developing countries.

The suggestion on the establishment of a code of conduct for multinational corporations would seem to be more valuable. The barest minimum provision that could be expected in such a code is that the conduct of a multinational corporation in host countries should at least not fall below the standard that it is expected to maintain in the home country.

What would seem to be more valuable at the international level, in present circumstances, would be the establishment of an "Information Centre" as well as a machinery for providing technical assistance to the developing countries in their negotiations and dealings with the multinational companies. In this respect, it would be most useful for the work of the Group of Eminent Persons if the Secretariat would supplement its report with a comparative study of a few of the agreements between multinational companies and different types of host country, including those concluded with socialist countries.

Before actually proceeding to set up a new institution as such, it may be useful to make a thorough survey of the range of information that is currently available on this subject from existing United Nations agencies, such as UNCTAd, UNIDO and WIPO, and to identify the gaps that need to be filled. One obvious gap is the kind of detailed information about the multinational corporations that can best be made available either by the corporations themselves or by their home countries.

While international measures can go some way to increase the contribution of the multinational companies to development, much would still depend on the national measures taken in the host countries. The Secretariat report has placed great emphasis on regional co-operation and co-ordination as a means of improving the bargaining positions of developing countries. This is even more important to the least developed among the developing countries.

Harmonization of industrial development at the regional level in particular could provide the developing countries with a strong basis from which to negotiate agreements with the multinational companies. In this respect the implementation of the agreements among the Andean countries will be watched with great interest.

Summary of replies to questions*

Question: What are the limitations of the regional approach to strengthening the bargaining power of developing countries?

Reply: In spite of its limitations, regional economic integration does provide a second-best approach to dealings with the multinational corporations. It is certainly a better approach than negotiations on an individual country basis. I am more worried about a multinational corporation moving from one country to another within the same region in search of better terms than moving from one region to another. It should be noted that multinational corporations are very keen on having footholds in every part of the world.

Question: What can be done in order to assist developing countries to specify from the outset of the negotiations with particular multinational corporations what they want from them?

Reply: Your group should examine the possibility of the role of UNDP in financing feasibility studies. International organizations can help the poor countries in the exploration for new minerals.

Question: What are your views on a binding international agreement, of a GATT type, on multinational corporations?

Reply: Such an agreement would be among non-equal members and therefore would be viewed with suspicion among developing countries unless their special situation was acknowledged by the agreement. If it was possible to bring about major structural changes in the developing countries before getting them to enter into that type of agreement, the chances of success would be better. The colonial

* Questions were asked by the Chairman and Messrs. Browaldh, Estrany y G
Ivanov and Mansholt.

regimes have left a substantial proportion of the total productive assets in many developing countries in the ownership of foreign enterprises. These historical problems have to be settled in advance of any agreement. If this agreement is to command the respect of developing nations, it must ensure that multinational corporations behave in the developing countries in the same way as they behave in their home countries. For example, a code of conduct for multinational corporations would have to be strong enough to influence their activities in countries like South Africa, as regards the treatment of workers. Therefore, a GATT type of agreement regulating relations between multinational corporations and host countries can be usefully concluded only after major changes in the structure of economic relationships between developed and developing countries are achieved. It is in the context of a grand settlement of the structural problems arising from colonial and imperial relationships that a GATT type of agreement would be suitable.

Question: Is it true that a multinational corporation brings into a host country certain forms of social relationships which represent an artificial interference in economic and social progress, in the direction of creating socio-political structures that are convenient to multinational corporations?

Reply: A great deal depends on the social structure of the host developing country. If it is based on the free enterprise system, there is a greater danger that there will be an alliance between multinational corporations and local capitalists which will have political implications. This will affect the income distribution in the country. Partnership of a tripartite nature, namely multinational corporations, Governments and local businessmen, are preferable in developing countries, both in political and income distribution terms.

Question: What is the appropriate action at the international level?

Reply: Institutions to control multinational corporations will not be effective as long as developed countries do not meet their obligations under the International Development Strategy, and as long as developing countries continue to accumulate debts and their relative positions continue to deteriorate. There is a need for international action to help developing countries to build up their own capacity to discover their resources and use them, and to open up for them possibilities for the transfer of appropriate technology and the acquisition of management experience. After developing countries have built up their capacity to control their internal economies, they will be in a better position to withstand the onslaught of multinational corporations and enter into international agreements.

John POWERS
Chairman of the Board (retired)
Pfizer, Inc.

Summary of written and oral statement

Pfizer welcomes this study of multinational corporations in the light of facts and issues rather than myth and ideology. I was in charge of Pfizer's expansion from a small American chemical firm to a multinational organization now producing in 71 plants in 35 countries pharmaceuticals, chemicals, agricultural and material science products, and consumer health and beauty aids.

Multinational corporations, it is agreed, provide many significant benefits to host countries, such as greater capital formation, accelerated technical and management skills, increased employment, higher productivity, new and useful products, an improved trade balance, and higher living standards. In addition, MNCs train people, introduce new and improved labour relations, and open careers to talent without limitation of social background. They improve housing and education. They stimulate other industries, and they frequently become part of a national economic development plan, That their effects, on balance, are beneficial is shown by the widespread extent to which many host Governments have encouraged foreign private direct investment.

Multinational corporations also have been engines of growth in their own countries, creating jobs, developing new products, expanding exports, and innovating in the science of management.

The impact of the MNCs is analogous to that of the nineteenth century industrial revolution. There is a net beneficial global effect which makes for greater international interdependence and world peace.

Multinational corporations and sovereign power

MNCs are accused of challenging national sovereignty. If true, this would be serious for the MNCs because nation-States would not long stand for it. I question whether a real challenge to sovereignty exists.

In any single country, the local assets and operations of manufacturing MNCs represent only a small part of the total economy. Most important, the strength of a subsidiary in a host country is not identical in strength to that of the parent corporation. Statements about the size of the world-wide sales of a multinational are not relevant to this problem. It must be considered on a country by country basis and then the picture is seen to be quite different. But because MNC operations are highly visible, their effects are exaggerated. Social and economic tensions are not solely the results of the MNCs but are natural to the desire for change found in many host countries. Though MNCs are instruments for change, they are subordinate to the vastly greater global forces making for change and tension.

A frequent misunderstanding is that a threat to host country sovereignty arises from close ties said to exist between United States industry and the United States Government. This is a misapprehension. United States industry and the United States Government normally operate at arm's length. Moreover, United States industry itself is not a concerted force. Nor it is true to say that MNCs move abroad to preserve a monopolistic or oligopolistic position. They go abroad to expand sales and open up new markets. They challenge existing monopolies and oligopolies in host countries and so add to beneficial competition. Pfizer's global experience is one of intense competition from competitors of many nations. This is reflected in the relative stability of our prices in an inflationary era.

Market shares also change constantly under competitive pressures. Pfizer's experience is probably matched by that of many others.

It is difficult to believe that the interests of MNCs and host countries do not coincide. In Pfizer we have always considered that we have a close identity with host country interests. Any other attitude on our part would be self-defeating. The MNCs are no match for sovereign power which grants permission to operate under the conditions that it lays down and which has the power to investigate, legislate, and to seize property and persons.

Though it may be uneconomic, many countries want their own pharmaceutical industry. We meet their wishes by specially designed mini-plants. We locate in depressed areas at Government desires. We also develop exports to suit Government plans. When commercial exports are not economically feasible, we try to make intra-company exports from one location to another to create exports which could not otherwise take place. Governments want research and development to be performed locally. Though it is impossible to conduct basic research in more than a few countries, we do carry out supplementary research in many countries. One result is that half of Pfizer's research personnel are located outside the United States. It is easy to exaggerate the importance of local research. The important thing is that the results of research are brought to the host countries.

One source of tension is said to be the lack of decision-making power by host country nationals in MNC operations. There is little or nothing in this charge. Of Pfizer's 23,000 employees outside the United States, only 60 are United States citizens. Of the 66 country managers who implement

Pfizer's decentralized operations abroad, less than one quarter are United States citizens. Moreover, many host country nationals work from time to time at the company's New York headquarters. Twice in recent years, the Chairman of Pfizer's International Division has not been a citizen of the United States.

MNCs have frequent contacts with Governments and differences of opinion arise, but it is an exaggeration to call them "tensions". The political powers of MNCs are also greatly exaggerated. Pfizer has never been a dominating force in the affairs of any country. Jurisdictional disputes over anti-trust laws, trade with proscribed countries and taxation are governmental matters. They do not arise from the MNCs.

It is said that the power of the MNC to think in global terms is a threat to local Governments and businessmen. In actuality, the efficient and normal continuity of operations in each country is important, and it would be most unusual for corporations to play musical chairs with production facilities. Being part of a global plan enhances the resources and strengths of subsidiaries. MNCs bring innovation in products, processes, and business methods to the host countries. For these reasons, forcing joint ventures on unwilling MNCs or expropriating them is not in host country interests. There is an inevitable trade-off between ideology and economic development.

Conflicts of jurisdiction between host and home countries or between different host countries are not new. These conflicts should be resolved individually on a nation to nation basis. It is premature to set up an international body for this purpose.

The special subject of currency transactions

MNCs are accused of damaging exchange parities by currency manipulations. This charge is inaccurate. MNCs do not engage in foreign exchange speculation or attacks on currencies. They do not dare. They have, however, to guard themselves against excessive exposure in any one currency. Consequently, they hedge funds defensively to guard against loss, but limited corporate liquidity and foreign exchange controls set narrow limits to this process. Hedging, which is expensive, is not speculative but defensive; its purpose is not to make a profit but to prevent a loss.

The future: some suggestions

It is premature, because it is unrealistic, to establish international machinery to monitor international investment. I suggest that the most the United Nations can do is to set up a forum for the identification and clarification of issues on which international progress can be made. A limited number of issues could be selected for special study.

If there is still doubt about the net benefits of MNCs to home and host countries, further cost benefit analyses might be made, A principal need is for the international harmonization and enforcement of anti-trust laws. Another major need is for the harmonization of tax laws so that the impact of taxes on MNCs is similar in the large industrial, if not in all, countries. (Tax incentives by developing countries are a separate problem.) In both anti-trust and taxation matters, there is need to establish common principles as well as to limit the extra-territorial effects of any one Government's actions. This would probably remove certain troublesome problems such as the appropriate taxation of foreign earnings and the legitimacy of transfer pricing. It should also promote a freer international flow of goods and services.

It is not necessary, as is sometimes suggested, to train government personnel in developing countries in investment matters or assist them in negotiating with MNCs. They are very competent in these matters, and they already fully exercise their sovereign control over foreign investment by setting rigorous conditions for it. Assistance might usefully be provided, however, in long-range development planning, Once optimal objectives have been set, the developing countries know how to deal with foreign investors to achieve their objectives.

Finally, let me commend the United Nations for having brought this Group together. Its work should result in international progress for the common benefit of all countries.

Summmary of replies to questions *

Question: What are your views on parent company restrictions which limit exports by subsidiaries?

Reply: A number of points might be made. First, there are governmental restrictions such as the United States Trading with the Enemy Act. These are governmental matters over which companies have no control. Secondly, there are the terms of patent licenses. As other speakers have said, it is no longer the practice to restrict the export markets of subsidiaries by the terms of such licenses. In regular business matters, Pfizer for example puts no restrictions on a subsidiary. It is completely free to develop its export potential. Thirdly, I would welcome a restrictive practices law which would forbid competitors to divide up the world geographically or to prohibit exports under certain conditions.

Question: Can less capital-intensive processes for countries with an abundance of manpower be developed through technological research?

Reply: We are really talking about two kinds of technology. The first is the development of straightforward labour-saving capital goods or processes. We do not use this kind of technology in labour abundant economies. It is interesting, however, to consider how far you can go in this direction before you are drawn over the line into sheer wasteful methods. We may have erred in this direction, but you cannot, as a practical matter, go too far. In discussing import licenses with some Governments,

* Questions were asked by the Chairman, and Messrs. Prebisch, (consultant) Mansholt, Matthoeffer and Sadli.

such as that of India, the question of excessive labour saving due to the use of advanced technology has been raised. We have no objection to meeting the wishes of such Governments, unless we get to the point of excessive waste. The second type of technology, however, relates to the quality or inherent nature of the product. We would not dare leave out of a pharmaceutical plant in any part of the world a new process which ensures the quality of the product. We make, for example, an injectible product almost 100 per cent guaranteed not to contain any pyrogenic material. We would use that type of technological advance in all cases.

Question: What are your views on the establishment of an international code of good behaviour for multinational corporations, and on creating a mechanism to implement the rules?

Reply: In my statement I said - perhaps too colourfully - that such action would be a hundred years before its time. There is no use in talking about a set of rules unless we have in mind specific rules. Generalized discussion would merely lead to a prolonged and sterile debate. Let us get down to discussing those specifics which are the urgent needs of the moment. This is the reason why most of us have made suggestions about specific matters which need attention now - such as tax neutralization, the harmonization of anti-trust laws, and assistance to the developing countries in long-range planning. It is too vague to talk of the multinational corporation in the abstract. We need first to define the problems and then we can decide on one of two possible courses of action: first, that we have so many problems which are fairly clearly defined and which are fairly practical to attack that we need a new organization to handle them, based possibly on a GATT-type of agreement; or, secondly, as

I would suggest, that the major problems which it is practicable to attack now are few in number and can be handled successfully by inter-governmental action without a new formal international organization.

I am sceptical as to the usefulness of the proposal to screen the activities of multinational corporations and Governments by means of a United Nations report. I would have to know the specific problems involved and the kind of report before I could really answer this question.

Question: Can the United States Treasury check in the host countries the financial operations of subsidiaries, such as the amounts of license fees, transfer prices, and the allocation of research costs, and can host countries similarly check the operations of the parent company in the United States?

Reply: The answer is "Yes". The United States Treasury, however, does not have to go into a sovereign country to do this, for it can go to the parent company and demand to know what it is doing in Germany, for example, and require the production of German documents in support of the company's answers. The German Government can do the same thing in reverse with the subsidiary company to check on the parent in the United States. The companies must do whatever the Governments want. This is why I said this morning that the sovereign power is tremendous. Governments do not always exert this power to the fullest extent, but they do exert it as they see fit.

Question: Do you view yourselves as oligopolies which can set prices?

Reply: The basic question is how you establish prices on a new product. The dominating factor is the competitive price which you must meet, and there is always a competitive situation. Hence, a company is not free to set prices according to its own wishes but must always have regard to the forces of competition.

This question, however, raises a further question. If you think a foreign company is an oligopoly, you have to ask "oligopoly where"? You may say it is an oligopoly in the United States, or perhaps in several places at the same time, but then the host Government is always free to say that it does not want an oligopoly in this field in its own country, and it can then set rules for the game which will specify the number of firms necessary and sufficient to prevent an oligopoly.

Irving S. SHAPIRO
Vice Chairman
E.I. Du Pont de Nemours

Summary of written and oral statement

The utility of the United Nations Report, which we are discussing today, might have been enhanced had there been more detailed discussion of the constructive role of the multinational corporation as an effective economic instrument and perhaps some informed speculation as to what the state of the world economy might be today if multinationals had been stifled at an early stage of gestation. I trust that this omission will be corrected in your deliberations.

The Report has many merits. I must add, however, that we are somewhat distressed by its adversarial tone - its implicit conviction that the goals of multinational corporations and the goals of people and national entities are fundamentally in disagreement and perhaps irreconcilable. We contend that the over-all economic process has a broad and all-inclusive goal - the effective use of the world's resources on behalf of all.

The collective and individual size of multinational corporations, which the Report emphasizes, should be no surprise to those who understand the practicalities of modern business.

In our case, for example, a manufacturing plant for one of the fibres we make with a 5 million pounds a year capacity would cost about $2.00 per pound of capacity to build and its operation would be high-cost and inefficient. A plant for the same product 20 times as large costs only $0.70 per pound of capacity and operates with low cost and high efficie[illegible] Only the well-to-do can afford the output of the small plant. The example is repeated in our other product lines. In enterprises like ours, size is dictated by the nature of the business, not by the reach of its owners.

In our case, the considerations of size also affect the location of our operations. We expand into developing countries when there is a fit between their needs and our capabilities.

The value of technology seems to be generally accepted, as is the unique role of the multinational corporation in both developing it and making it available in one way or another. What is sometimes forgotten is that technology is a capital asset, bought and paid for, just as a manufacturing plant is. Du Pont spends over a quarter of a billion dollars a year on research and development. But the risks are extremely high. Only one out of twenty projects ever results in a commercial development. But the effort is enormously expensive and our costs must be recovered in the products we sell, both at home and aborad.

Royalty and licensing income is small in comparison with our research and development costs. Over the past 10 years, it has amounted to $254 million, one-tenth of our $2,430,000,000 expenditure on technological development over the same period.

Although we prefer to utilize our technology in our own plants, we are open to making it available by other means including licensing, joint ventures, sales, and other appropriate methods.

The most consequential decisions about multinational corporations are and properly should be, made by the nation-States. The largest of the important issues involve relationships between nations and the consequences of diverse national policies. Cross-border transactions would be no problem, nor would trade and monetary matters, if national policies were harmonized. Extra-territoriality and home-host country relationships are matters for agreement among Governments. Business organizations are essentially bystanders in matters of this magnitude. They are non-sovereign and not laws unto themselves, despite implications in the Report to the contrary. They are subject to the control of nation-States. Despite isolated examples, their power to unduly influence Governments is largely theoretical. Neither Du Pont nor its subsidiaries has ever subverted, or even significantly influenced, national policy. On the other hand, even in the case of smaller nations, governmental power to control is enormous, ranging from the subtleties of taxation to expropriation.

We believe that everyone would benefit if there were reasonable uniformity and stability in the laws and rules affecting business, both national and multinational,in such matters as taxation, incentives, business practices and environmental protection.

A common code of behaviour for multinational - and, for that matter, national - business would be a logical and constructive step so long as it was accompanied by parallel standards for other parties to the arrangements Government and labour.

However compiled, such codes should establish reasonable criteria and should reflect a balance between all the interests involved, not only as a matter of equity but also to make the system work.

The existence of codes automatically leads to thoughts of a mechanism for overseeing their implementation. GATT comes to mind as a device that has worked rather well, despite some shortcomings. It has the desirable elements of predictable rules, reciprocity, long-term flexibility, and adjudication. The time may not be right for a full-fledged GATT for investment, but serious exploration of the possibility may lead to an evolutionary development that would be acceptable to all concerned.

Regarding the Report's recommendations dealing with the purposeful collection and dissemination of data and the provision of a forum for debate, we already furnish mountains of statistics to home and host Governments. On the surface, data-gathering and debating seem sound enough proposals, yet there are hazards in their execution. Data are subject to interpretation and even distortion, especially when there is an avowed purpose "to influence public opinion." Safeguards against one-sided and adversarial use of information are of critical importance.

The regional programmes seem to us to be a promising avenue to accelerated progress in economic development. We would welcome the chance to look at regions, with their larger markets, to see if there is a fit between their needs and our capabilities.

The recommendation that an international organization should supply additional technical expertise and training to developing countries is a beneficial one, in cases where those functions are needed and wanted.

Politically the world is fragmented. I accept that, but I am a devoted and optimistic advocate of what I call one-world economics. There are no geographical boundaries to the material needs of people and no justification in morals or ethics for some nations to be haves and others have-nots. Our economic system, like our politics, sprang from national origins, and when its capability was limited, its incentives were linked to national well-being. But there has been a change. Now, thanks mainly to technology and industrialization and to developmnents in communication and transportation, production capacity with its supporting structure has matured to the point where it can look beyond national boundaries to the task of meeting needs on a world-wide scale.

The objective is to fill whatever material needs exist wherever they are and, as in any good business deal, there are benefits for both sides. Business can make a fair profit to satisfy its objectives, while helping nations and people improve their well-being to satisfy their's. Unlike one-world politics, one-world economics is within reach. The productive system is proven out, and much of it is in place. What remains is to harness it effectively to the world-wide task.

Summary of replies to questions *

Question: In what conditions do you feel any restriction on the right of a subsidiary to export is justifiable?

Reply: As the system operates, a license is granted to a subsidiary in a foreign company to manufacture and use the technology in that country. That carries with it normally the right to sell the product wherever it is free to be sold. However, there will be other nations in which patents exist, and these will preclude the sale of that product in those nations. As you establish a world-wide business enterprise, practical common sense says that you do not want to wind up with four salesmen from one corporation calling on the same customer the same morning to sell the same product, regardless of where they come from. And so you have to have a degree of order as to who is going to service various parts of the world. To that extent, a multinational corporation obviously must give some direction to the management of its enterprise.

Question: Do Governments tend to request labour-intensive production methods or the most modern technology?

Reply: You invent to find a product and then a process by which you can produce efficiently and at low cost, and it fits wherever you do it. So that the size of the nation, I think, is irrelevant to the development of the technology... As you take that technology to another nation, a smaller nation particularly, you have a question as to what part of the technology best fits the situation in that nation. As has been suggested,

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* Questions were asked by the Chairman, and Messrs. Mansholt, Matthoeffer and Miller.

one might very well conclude that the wise course of action is not to put in certain capital equipment, but instead to use labour to achieve that purpose. However, our experience with the practical matter is that when we go to a developing nation, particularly, the issue that is raised is not how many jobs will you provide in terms of multiplying jobs more than you have to, but rather what guarantee will you give us that you are giving us your best technology? -- because we want the most efficient low-cost plant that can be built, because we want to compete with our neighbours, and ultimately we want to be so successful in this enterprise that we want to create jobs by enlarging the plant...

Question: Do you agree that a well-balanced set of rules to be respected by all parties, and a mechanism for overseeing the implementation of those rules would be worthwhile developing?

Reply: The thought that I expressed about a kind of GATT for investment came from an article written by Mr. Blumenthal. In this article, he spelled out in a couple of paragraphs some of the subjects that he thought might be worth working on. I do not disagree at all with my colleague that it will take a long time to accomplish and that there will be many hazards. But all problems get solved by starting on them. We could set something like this as a goal and go to work, a step at a time, solving one problem and then going on to the next one.

Question: Would you support the labour rights in the recently agreed upon European Companies' law? Also, even if, as is claimed, the cases in which multinational corporations have sought to exert undue influence are isolated examples, does it militate against international regulation?

Reply: On the labour front, I like our practice better than the German practice. But when we do business in Germany, we do it as it is conducted in Germany. There are techniques for nations getting together to set rules, to set up procedures, to debate issues. You suggested to all of us that because some people commit murder, we have laws against murder. I suggest to you that because some multinational corporations misbehave does not mean that we ought to attribute to all multinational corporations the misbehaviour of the few, just as we do not say that because some people commit murder all people are murderers. So I would argue that the references in the report to everybody being an oligopolist, for example, everybody taking advantage of host countries and so on, present an overdrawn picture.

Question: Why do we charge so little for technology when we know what a valuable asset it is?

Reply: In many areas of technology there is competitive technology. And so we are competing head to head with three, four, five or six other companies who also have a body of technology which they are offering. And it is the competition that determines the price.

Osvaldo SUNKEL
Latin-American Faculty of Social Sciences
Santiago, Chile

Summary of written and oral statement

The emergence of the Multinational Corporations cannot be understood in its full socio-economic and cultural dimensions without reference to the transformations which this process is bringing about in the global capitalist system. Nor can it be understood if the analysis is confined to the economic level, without bringing fully into consideration its social and cultural implications. It is perhaps understandable that the Secretariat Report should have shied away from trying to work with such a wide-ranging approach, but the advance towards a better understanding of the workings of contemporary capitalism is probably the most important contribution that could be made in order better to apprehend the real significance of the MNC phenomenon. The focus should be on the emergence of a transnational business conjunct with such an unprecedented potential of socially uncontrolled power and influence that the whole of national and international society finds itself forced into a profound reorganization in order to accomodate it. This is why we begin to hear rumours surfacing all over as its affected parts are unsettled by the expansion of the transnational corporate system: Governments of home and particularly of host countries, unions, regional and local communities, consumers, racial and ethnic minorities, university communities, etc. The growth and proliferation of the MNC conjunct cannot be analysed under ceteris paribus conditions with respect to the rest of the economy, society, polity and culture. The socialist countries also will find this out in due time.

Both in the developed and developing countries, a kind of dual but closely interrelated segmentation of the economy is taking place. On the one hand, the growing oligopolistic economy of the transnational giants; on the other, the relatively shrinking traditional market economy of medium-sized and small producers, to which, particularly in the developing countries, the vast mass of the semicapitalistic economy has to be added. The traditional capitalistic and semicapitalistic producers participate partially or totally in markets in which price competition prevails and the individual producer has little power. They have to abide by the rules of a laissez faire game imposed from above by the visible hands of the Government and the transnational oligopolistic segment.

The managerial class of the transnational business conjunct, in contrast, possesses sufficient power and influence to try to set the rules of the game, either by trying to induce or force authorities to adopt the rules which MNCs require for their growth and expansion, if necessary changing the authorities, or by circumventing the established rules. This kind of corporate behaviour must therefore be considered normal and not exceptional behaviour. The Report stresses the "resourcefulness of MNCs in the face of changing attitudes and regulatory legislations". The hidden assumption here is that the State has the power to set the rules and that the MNC is flexible enough to accomodate itself to those rules. Elsewhere however, the Report distinguishes between national and MNCs, indicating that the former can be controlled by the "pouvoir supérieur souverain", but that the "governments often feel a lack of power to deal effectively with MNCs"

This ambivalent attitude is the result of faulty analysis. Since there is no conceptual framework to cover the whole system within which States and MNCs operate, the Report moves undecidedly between considering one and then the other as the autonomous variable. In conventional economic theory, it is assumed that the Government is the autonomous variable. But there are many instances, testifying to the great variety of subsidies of all kinds which Governments have explicitly adopted to encourage the growth, expansion and prosperity of the MNC. Neither Governments nor MNCs seem in actual concrete practice to be autonomous of each other. The reason is that they are both parts of a single system and have to adapt to each other. There is conflict in this mutual adaptation, because "the policies of MNCs are based on considerations which transcend those of host as well as home countries". The policies which do not coincide with those of host or home countries, being the policies of the transnational corporate conjunct, are thus transnational or non-national. They are the outcome of the structural requirements of survival and growth of the oligopolistic transnational segment of the world economy.

The managerial class of this aggregate of MNCs is in charge of formulating and implementing these policies, notwithstanding their contradictions with national policies. These functionaries of MNCs are national citizens in the legal sense, but their function, culture and ideology are transnational. They are, as it were, private transnational bureau-and technocrats, similar to the international civil servant but without a laissez passer. A transnational capitalistic system is emerging, overlapping national States de facto although not yet de jure. This perspective cannot be dismissed on the doubtful ground that Governments are increasingly powerful. If, as is more probable, Governments and MNCs are adapting to each other, this would be a sign that it is the emerging transnational capitalist system rather than the national Governments which is growing more powerful.

Contemporary transnational capitalism bases much of its formidable dynamism on the ever-increasing and diversifying stimulation of consumption, and on continuous technological innovation in products and processes of production. The MNCs' unique contribution consists of their "ability to combine different kinds of lasting knowledge into commercially viable processes and products". Furthermore, "the dedication of significant amounts of resources by MNCs and their corporate commitment to technology is largely induced by the expectation of monopoly 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".

But since monopoly rents decrease over time, MNCs are forced to keep innovating products and processes in order to keep reaping monopoly rents before they decline and eventually disappear.. For the same reason, and because of competition among themselves, they are also forced to keep tapping potential markets in all available "host" countries. In order to keep this growth mechanism functioning, both home and host countries provide substantial subsidies to the transnational corporate system: basic research, research and development, government contracts, international transportation and communication networks, tied public foreign loans, foreign aid and technical assistance, etc., on the part of the developed countries; protection, low interest credits, special tax concessions, etc., on the part of the developing countries. Moreover, through its pervasive influence on consumers, producers and Governments, the transnational corporate conjunct stimulates the accelerated diversification, obsolescence and replacement of existing consumer and producer goods. It has in fact discovered the technique of planning the accelerated consumption of consumer and producer goods and services.

Since transnational capitalism is heavily subsidized and has the power to influence Government and private spending, there are no solid grounds to maintain that its "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". There is no doubt that this is a convenient situation for MNCs to be in: they are able to mobilize not only their own resources, but also the resources of others throughout the world, in order "....to combine them in economically feasible and commercially profitable activities". This is precisely the virtue but also the sin of the MNC: it is the most efficient instrument so far developed by capitalism to siphon-off resources from where they are most urgently needed, but where there are no commercially profitable possibilities, to where they are least necessary, but where the most commercially profitable possibilities exist, possibilities which are to a large extent created by the corporations themselves. In the process of doing this, local entrepreneurial groups are expropiated, traditional and not so traditional economic activities are disrupted, un-and underemployment is generated, national decision-making centres are eroded, balance of payments problems are aggravated, property and income are increasingly concentrated. All this together with growth in income per capita, because the transnational segment of the economy and its ancillary activities expand at the expense of the rest of the economy.

The most significant change that has taken place in the last decades is the internationalization of manufacturing production. The Report fails to bring out this fact because there is no adequate time perspective. Before the 1950s, foreign private capital was invested mainly in public services, mining, agriculture and petroleum. Since then, in all other sectors than petroleum foreign investment has declined substantially, while increasing dramatically in manufacturing and such related services as banking, marketing, mass-media and publicity. This represents a reorganization of the international economy and the emergence of a new international division of labour. Before the Second World War, we had the nineteenth century pattern of manufacturing countries and primary producers. But since industrialization took root and expanded in developing countries, a new pattern has started to superimpose itself.

The new model is operationally structured around the large MNC. In the plants, laboratories, design and publicity departments, as well as in the planning, decision-making, personnel and finance organizations that constitute its headquarters - always located in an industrialized country - the MNC develops: (a) new products; (b) new ways of producing those products; (c) the machinery and equipment needed to produce them; (d) the synthetic raw materials and the intermediate products necessary for their production; (e) the publicity needed to create and activate their markets; and (f) the subsidiaries, joint-ventures or licensing arrangements necessary to market, assemble or produce them in other countries. The well-known import-substitution strategy of industrialization is in fact the same as the MNCs strategy of penetration of foreign markets, supported by external public and private credit and also by international technical assistance. In a world of protected markets, but of defenceless consumers, a new form of international division of labour appears, with its corresponding agent: the transnational manufacturing oligopoly. As in the previous phase, there is also the same techno-scientific specialization: the centre concentrates on the generation of new scientific and technological knowledge, and the periphery on its consumption and routine utilization.

The last point implies that in the field of science and technology, where the MNC is supposed to make its most essential contribution, that contribution is not transferred to the developing countries. It is true that the developing country may obtain, through skillful negociation and policies, a larger share of the benefits from the use by the subsidiary of parent technology, such as local skill formation, various socially valuable externalities, a greater proportion of local imputs and a larger share of profits. But as far as transfer of technology is concerned, what we get are strictly end products, not the "ability to combine lasting knowledge into commercially viable products and processes". We get new products and processes, but not the capacity to develop new products and processes.

As a matter of fact, the tendency of local firms and subsidiaries to import technology wholesale has deleterious effects on such local techn activity as may exist. It may even replace technology developed through long experience and adapted to local conditions, with very negative effects on natural resources, employment, use of local materials and balance of payments. This is clearly the case with building technology.

On the other hand, such scientific and technological research as may exist and be of potential value for the MNC can be monitored by its local technological staff and sent to headquarters for development. This tapping of research and development by the net of technologists of the MNC around the world goes undetected by the scientific community of the developed countries, and is another instance of its advantage in "world-wide sourcing".

As regards the programme of action I am generally sceptical, since I believe that there are basic contradictions between the development strategy needed for developing countries and the kind of developing strategy induced through the multinational corporate system.

I believe further study of the nature of contemporary capitalism is essential. It is fundamental to develop new conceptual frameworks, which will capture the transnational as well as the socio-cultural and power dimensions. Existing developmental analysis is pitifully inadequate, and is rightly being submitted to devastating criticism.

One line of action which I believe to be fruitful is that related to the strengthening of the bargaining position of host countries, particularly developing host countries. There is large scope for action here. Developing countries have much to gain from better bargaining, and a lot can be done by the United Nations in this direction.

Summary of replies to questions*

Question: What are the limitations of the regional approach to strengthening the bargaining power of developing countries?

Reply: Countries have a better bargaining position when they group together. Corporations tend to expand to new markets; they will not easily abandon one region for another. Of course, in the case of communality of resources, for instance, petroleum or copper, regional groupings are not significant; in such cases the grouping should be based on the resource rather than on geography.

Question: What can be done in order to assist developing countries to specify from the outset of the negotiations with particular multinational corporations what they want from them?

Reply: The enlightenment of the local technocrats and policy-makers is a fundamental problem. Mythology and idealogy often preclude rational thinking. A "laissez faire" attitude has at times led to irrational production set-ups. This happens especially when there is no legal framework to back the negotiators. There is, however, an increasing realization now in many developing countries that they shauld explore their interests. But one characteristic of under-developed societies is their conflicting nature; in their contradictory social structure, it is difficult to establish a degree of consensus as to what are the essential objectives of development

* Questions were asked by the Chairman and Messrs. Browaldh, Dunning, [illegible] Gendre, and Schaffner.

As ruling groups change dramatically, so do the established objectives.

The other problem is the degree of local capability in development of human resources. In Chile, for example, in spite of the fact that copper has been mined for the last 60 years by foreign companies, there is not a single Chilean economist. On the other hand, Chile has developed basic research on hydrological resources around the national development of hydroelectric power over the last 40 years.

Question: How could the distribution of technology be made equitable?

Reply: Multinational corporations are not oriented towards satisfying the basic needs of under-developed countries. Thus, the pattern of demand for the kinds of technologies needed for development overlaps very little with the pattern of supply of technologies produced by multinational corporations. Developing countries should find alternative ways, largely within their own countries, to satisfy their basic needs. But even if technologies are developed, there are social and political obstacles to complement them, as for instance in the case of agriculture. Mechanization of agriculture may be necessary in Iowa but not in a developing country.

Question: Is the approach of Mexico and of the Andean Pact countries to foreign investment an adequate reply to the problems of increasing the negotiating power of developing countries?

Reply: The emerging new thinking in developing countries is reflected in rule 24 of the Andean Pact and in the Mexican legislation. After years of development efforts and planning, the Latin American countries have started questioning the international system and their own approaches. Especially since the mid-1960s, when the literature on the problem of dependence appeared, people in Latin America have been realizing that the international system is a system of power and that they are at the weak end of that system, and they have started exploring different methods. This increasing enlightenment of certain ruling groups and the technocrats led to the establishment of some kind of legal framework. Nevertheless, mechanisms for co-ordinating the technocrats and the various institutions which have experience in negotiations are lacking. There is a shortage of strong bargaining staffs in the Andean Pact countries and to a lesser degree in Mexico. Universities and research institutes still have to be linked together in order to formulate plans for the development of science and technology. This process will depend very much on the social structure of the countries. If a country becomes a branch plant of another country, there will be little hope for much development.

Question: Is it true that some multinational corporations have grown beyond optimal limits and that their concentration is of capital, ownership and power, rather than production?

Reply: The phenomenon of conglomeration is very important. Certain of these enterprises are not producing any more; they are financial and technological planning headquarters to organize the efficient production of a very large number of plants throughout a large number of branches of economic activity, thus providing the link within the group itself, through horizontal and vertical integration. Once all the subsidiaries of the main multinational corporation are in one country, some type of subsidiary conglomerate develops locally which has strong influence on public policy and on the socio-political structure.

Question: What type of international agreement do you find desirable?

Reply: An international agreement ratified by the parliaments of the world would have a tremendous educational effect. Even if final agreement is not reached, a thorough discussion of the question of multinational corporations will be very useful. But an agreement will freeze a number of policy options for the developing countries. The process of development requires constant change, including change of the rules and structures.

Question: Is there not a tendency to exaggerate the role of multinational corporations in the development process?

Reply: I think it is important to study the institution of the multinational corporation because it is the most powerful institution of the new capitalist system.

PART TWO

SECOND SESSION

(Geneva, 2,3,5-8 and 15 November 1973)

György ADAM
Head, Economic Research Section
Computer and Automation Institute
Hungarian Academy of Sciences

Summary of written and oral statement

The multinational corporations' operations in developing countries have [a] political and [b] economic dimensions.

[a] The political dimension is exemplified in an irrefutable way by ITT's interference in Chilean politics publicly admitted by its President before the United States Senate Foreign Relations Subcommittee. ITT manoeuvres similar to those in Chile have taken place in Ecuador, Peru, etc. ITT's practices are not unique. For example, in Jamaica, the former United States Ambassador testified in a public hearing to have attempted to make a deal with a presidential candidate in Jamaica: no United States intervention in the elections provided the United States - owned bauxite industry is not nationalized. Multinational corporation experts frequently allege that to engage in diplomacy and intelligence is "business as usual" for corporations.

There is no evidence that all multinational corporations without exception indulge in such and similar practices everywhere and all the time, but in view of the historical record [Guatemala, Iran etc.] it can hardly be doubted that quite a number of them - particularly some of the biggest - do.

In order to prevent multinational corporations sharing the "business philosophy" of ITT, from invoking overt and covert, intervention by their home countries, one of the means and ways worth while trying would be a build-up of such institutional arrangements as would make it as little rewarding as possible, politically, economically and morally, for multinational countries and home countries to continue such actions.

/b7 As to the economic dimension, there is a general consensus that - as the United Nations Report states - the over-all importance of the multinational corporations in developing countries is growing. A distinction, however, is in order between the various economic sectors.

In the extractive industries, the trend toward total and partial nationalization seems irresistable, yet, owing to the relative inexperience of developing countries, many problems remain unsolved. /Management contracts making it possible for multinational corporations to utilize the operation as part of a worldwide system of corporate control; continuing dependence via marketing etc./. The creation of "flying United Nations squads of experts" may be worth trying.

The picture is different in the manufacturing industries where - in contrast to the extractive industries - the multinational corporations continue their expansion. But even here a differentiation is in order.

In Asia - particularly in Southeast Asia - a veritable "incentive scramble" has developed between the host countries /this refers mostly, but not exclusively, to the smaller ones/. Is there anything that can be done about it? Perhaps the recent Conference of Nonaligned Nations offers some hope: one of its resolutions points to the need "to eliminate unhealthy competition" among developing countries.

Import substitution has also been efficiently used by multinational corporations to extend their domination over host country markets, particularly in the more dominant sectors, and coupled with the take-over of many national firms ["denationalization"]. This has made the multinational corporations in many countries the main beneficiaries of the tariff preference schemes granted by some developed countries.

Yet there are a number of hopeful developments.

In the extractive industries, OPEC is economically a resounding success; the formation of product associations between developing countries is foreseen.

The application of the fade-out formula in the Andean Pact Countries [as well as some others] is tantamount to automatic nationalization, requiring foreign private enterprise to divest itself gradually of major portions of its ownership and control in favour of local interests. This concept of "limited-life corporations" would do away with the self-perpetuation of the multinational corporations.

There is a growing school of economists in the developed countries [principally in the United States] who advocate the replacement of the traditional forms of direct foreign investment by contractual obligations for a fixed number of years, with ownership left wholly or in controlling part in national hands. It is even suggested that the whole structure of multinational corporations should be transformed into something resembling that of personal service firms. Some of these proposals tend to ensure the continued presence of multinational corporations in the developing countries under new rules of the game.

The myth that foreign /Western/ private capital is indispensable for the development of the developing countries is waning. More and more key officials and academicians in Latin America question seriously the contribution of foreign private enterprise - particularly in the manufacturing and service sector - to the development process.

Some recent trends in this area:

- It is believed that there is no reason why all the specific advantages of multinational corporations should be tapped only through direct investment. The separate purchase of knowhow, machinery and technology, without using the complete package offered by multinational corporations, could substantially increase bargaining power and reduce costs.

- In view of the relatively small contribution of multinational corporations to capital investment, the alternative of bond placements, already practiced by a number of countries /Brazil, Venezuela, Cuba, Mexico, etc./ might be envisaged.

New alternatives are also sought for multinational corporations:

/a/ State-owned enterprises in some developing countries are becoming a viable alternative to private western multinational corporations in an increasing number of cases; /b/ The Andean Pact countries are creating State-owned region-wide multinational corporations; /c/ Rules have been laid down in the same countries for region-wide private multinational corporations; /d/ The idea has been raised of an Inter-Regional Third World Bank, owned by nationals and governments of developing countries which are in a surplus capital position; its function would be to service eligible developing countries worldwide.

The multinational corporations' most recent tool of expansion in developing countries is offshore-manufacturing /worldwide sourcing, foreign sourcing/. This causes serious dislocation in the developed countries and threatens the developing countries with transformation from "banana-republics" into "pyjama-republics", or "branch-plant economies". It would be perhaps expedient to explore the possibility of avoiding such dislocations, as well as the establishment of a new hierarchical division of labour, by studying the worldwide co-ordination of this development by some organ of the United Nations.

As a citizen of a socialist country, may I claim a part for the community of socialist nations in offsetting the asymmetry in economic capabilities between multinational corporations and the Third World. East-West co-operation agreements constitute a permanent frame of reference for developing countries in their attempts to substitute a new pattern for the traditional forms of direct investment by multinational corporations. Contractual joint ventures without equity participation - although applied so far to a very limited extent in Eastern Europe - also arouse intense interest in developing countries. Whenever developing countries ask the socialist countries to assist them by sending experts, we comply with their request within the framework of their possibilities. A number of developing countries have received very substantial direct assistance from the USSR.

As regards the international programme of action contained in the United Nations document, I welcome the establishment of a United Nations forum aimed at the regular discussion of the problems deriving from the operations of multinational corporations. A United Nations

Information Centre on the activities of multinational corporations appears to be long overdue. In this respect, the active co-operation and involvement of the big international labour federations of all trends appears not only useful but essential. The build-up of key multidisciplinary personnel so that technical co-operation could be organized and fielded with a minimum of delay also seems desirable. In all other matters, thorough further consultations seem to be required.

Summary of replies to questions *

Question: What are the prospects for taxation of worldwide profits?

Reply: As evidenced by discussions going on in the United States on problems of MNC-taxation, tax credits, tax deferrals etc., there is tremendous resistance on the part of MNCs, nor am I quite sure that some of the developing countries would be very willing to subject themselves to international rules regulating the extent of incentives unless there is very great pressure by most of the developing countries and by at least some of the investor countries. I am a bit sceptical of the practical feasibility of any such project.

Question: Has the bargaining power of developing countries increased?

Reply: This is certainly true, but it should be stressed that in view of the increased importance of the so-called intangible assets of MNCs, automatic nationalization in the Third World is not solving all the problems, but is only one step on a long way.

Question: What are the prospects for international co-ordination of worldwide sourcing?

Reply: I emphasized that worldwide sourcing appears to be an irreversible trend, pregnant with dislocations and a new, hierarchical international division of labour, condemning the economies of many developing countries to perpetual structural inferiority and becoming a quite new, independent source of formidable complications. Previous consultation with Governments and labour unions, involving at a later

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* Questions were asked by Messrs. Uri, Mansholt and Weinberg.

stage the MNCs, could be a first tentative step to international co-ordination. East-West co-operation agreements may be studied with great benefit in this respect.

Question: Can the socialist countries provide alternatives to the MNCs?

Reply: Within the Complex Programme of the Council for Mutual Economic Assistance, much thought is given to the elaboration of new forms of interfirm-co-operation between enterprises of socialist countries. They will be different from those in the West and will open up new perspectives to the Third World too.

Question: Can the socialist countries provide an alternative technology?

Reply: New technology elaborated by the socialist countries and adapted to their circumstances is sometimes more suitable to conditions in the Third World than Western technology. This refers also to agriculture. If developing countries request that research and development be undertaken in socialist countries in order to elaborate technology that Third World countries need, I believe such requests will be given serious consideration. Cases are known in which Eastern European countries have been approached to participate in trilateral joint ventures in developing countries just to be available as experts, offering help and assistance that can be relied upon by them. Many conferences are held in Eastern Europe which give much thought to joint enterprises with and in developing countries, on terms which in many respects will be very different from those granted by Western MNCs.

Giovanni AGNELLI
Chairman, FIAT, S.P.A.

Summary of written and oral statement

The multinational corporation, as you know, has developed in response to a demonstrated human need - the need to organize men, money, resources and technology on a global scale. It has grown so rapidly because no other institution existed that could better serve this purpose.

We have almost become one world economically, but we are still far from being one world politically. The absence of a government on a world basis has left mankind with a multiplicity of contrasting and unsolved problems which are pressing us daily. In a sense, the network of multinational companies represents in embryonic form the central nervous system of an emerging global economic order. Global planning to assure the most efficient and equitable use of resources is desperately needed to cope with these problems. But it is hard to see how they can be solved without the management skills, the technical know-how, the financial resources and the worldwide co-operative networks that multinationals possess.

I believe the remaining years of the century could bring an unprecedented worldwide diffusion of knowledge and skills and a vast transfer of productive facilities from developed to developing areas. And the catalysts of this transfer process beyond the nation-state borders could be precisely multinationals. The issue should not be posed, therefore, as one of multinational corporations versus the nation-state, but rather in terms of suspicion-free mutual benefits, provided that both take an enlightened and long-term view of their real interests.

When considering the lessons of the past experience, I see no real inconsistency between the world-wide economic approach of the multinational corporation and the legitimate development needs of individual countries. Nor do I see any inherent conflict between the needs of a corporation to realize in the long term a reasonable profit and the fulfilment of a country's economic and social goals.

The compatibility of their respective interests can be seen in Fiat's experience.

In our overseas operations, we seek to relate our activities to the development needs, priorities and programme of the host country, where our basic policy has always aimed at being good and loyal citizens.

In developing countries, Fiat seeks, whenever possible, to form joint-ventures with local capital, make minimum use of local resources and devote particular attention to assist developing countries through the transfer of management services and technology. In this regard, I can say that we follow a fully flexible policy, ranging from totally-owned subsidiaries as in Argentina to joint-ventures with local or public capital.

In several other initiatives we are ready to sell projects, know-how and management services on a fee basis, as for the Togliattigrad plant in the Soviet Union. I want to add that we are ready to modify both our participation criteria in local investments and our types of product according to local priority requirements, by devoting particular attention to the production of capital equipment, such as agricultural tractors, earth-moving machines and equipment or industrial vehicles.

Now, what can the international community do to help the multinational company and the nation-state to work together for mutual advantage? I see the following main areas where useful action could be taken:

First, we need more information and analysis of the problem. A United Nations programme in this direction could help develop the consensus that is essential for agreed action.

Second, we need better communication between the representatives of Governments and multinationals. The latter could contribute by fuller disclosure of their balance sheets to remove much of the distrust between Governments and corporations.

Third, we could improve the flow of technical assistance and advice to developing countries in matters related to foreign and local private investments. Our own experience suggests that many misunderstandings between multinationals and host Governments arise from the difficulties that Governments face in fixing their own policies toward their economic goals as well as toward multinational companies.

Fourth, we clearly need better rules governing the relations between multinationals and Governments. But a binding multilateral agreement between developed and developing countries in the form of a "GATT for Investment" does not seem practical at the moment. Instead, the idea of developing a voluntary code on the rights and responsibilities of the multinational corporations seems to be an attractive one. The "Guidelines for Foreign Investment" drafted by the International Chamber of Commerce represent a good beginning.

When one comes to binding international agreements, I believe that harmonization of national laws in taxation and restrictive business practices are the two obvious places one ought to start with.

Fifth, we need new efforts to develop procedures for the avoidance and settlement of investment disputes. The arbitration committee of I.C.C. and the International Centre for the Settlement of Investment Disputes established by the World Bank group are positive developments in these directions.

Sixth, the negotiations under way in international trade and monetary reform should put special emphasis on measures that can serve the mutual interests of multinational companies and developing countries. I suggest that serious consideration be given in the GATT negotiations to more ambitious programmes - the elimination, by a specific target date, of all trade barriers maintained by developed countries against the exports of the less developed.

At the same time, it would be useful if new rules could be established to require the developed countries to eliminate their restrictions on capital flows to the less developed ones.

There is one institutional issue, however, on which I would venture a suggestion. A broad measure of agreement seems to be developing in favour of a permanent United Nations Commission and a unit in the United Nations Secretariat to be concerned with multinational corporations and international investment problems. It should be composed of highly qualified experts serving in their individual capacities and drawn from Government, multinational companies, trade unions and the professional and academic world. I also hope that any new Secretariat Unit established to serve this commission will include personnel from the private sector and the Government as well.

Paradoxically, the increasing interdependence of nations has at the moment become a source of growing conflict. We should not underrate this trend. Even culture and communication no longer seem to be a cohesion factor, upstream of the worldwide economic phenomena. Such a trend is there to go on and to become ever more critical, unless we find out better ways for managing our mutual interdependence.

Summary of replies to questions*

Question: In view of FIAT's 36 per cent participation in its Spanish affiliate SEAT, how do you justify your disclaimer of responsibility for the incidents arising out of labour unrest at the Fiat plant in Barcelona in 1971?

Reply: A minority participation provides very little influence over the labour régime of a country such as Spain. Our only influence is in technical matters related to production assistance or the development of new models. SEAT is responsible for its own management and labour relations, which have improved, I understand, since that time.

Question: A similar situation arose in May 1973, which would hardly seem to be evidence of an improvement in labour relations. Is it not true that in cases of trouble transnational corporations try to pass off responsibility onto their subsidiaries even though the basic decisions are in fact theirs?

Reply: If a multinational company tried to intervene, it would soon be accused of interfering in the internal affairs of a nation state. A minority participant, in particular, could not impose its will on a majority.

Question: You are familiar with the international labour codes, providing for minimum standards agreed upon by labour management and Governments: why should not multinationals be obliged by an international code of good behaviour to abide by the labour code in exchange for the privilege of operating on a world-wide scale?

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* Questions were asked by the Chairman, and Messrs. Weinberg (consultant), Miller and Mansholt.

Reply: In that case, labour conditions would have to be bargained upon with Governments in the same way as other investment privileges.

Question: The host country would be entitled to reject the investment, if it could not accept the conditions. Would you object to including in the code of conduct some of the provisions of the proposed European Company Law, such as European-wide collective bargaining, inclusion of labour representatives on the supervisory boards of European companies, and the right of unions to veto certain managerial decisions or to be consulted on others?

Reply: We will abide by those provisions if the European Community approves them. However, it is difficult to see how they could be imposed elsewhere, for example in the United States.

Question: If a code of good behaviour could be worked out, would you object to including provisions on labour standards?

Reply: We would have no objection.

Question: Some transnational corporations try to play off national workers' groups against each other. Would you be ready to participate in meetings at the world headquarters level with representatives of trade unions of all the countries in which you operate, to discuss matters of common interest, including disinvestment and displacement of production which are of direct concern to workers?

Reply: Someone would have to bear the economic responsibility for the outcome of such discussions. Multinationals could not be expected to increase their investment in areas that are uneconomic compared to others.

Question: Certain basic human needs are the same all over the world. Yet, for example, the relief time given to assembly line workers varies considerably from country to country within the same industry. Would you object to meeting with workers' representatives from several countries to negotiate an upward harmonization of standards within existing productivity?

Reply: We would not object.

Question: Since most developing countries want both more jobs and more exports, how do you determine the appropriate technology for each country if a compromise has to be reached between the two?

Reply: In a business such as the automobile industry, the countries must be convinced that it is in their best interests to produce components rather than the finished product. In producing components, moreover, they need to use the smallest working group possible in order to make the components competitive and to be able to export them to countries where they can be assembled.

Question: What are the advantages to a multinational corporation of selling "unpackaged" technology, as in the case of Fiat's sale to the USSR of the Togliattigrad plant?

Reply: That was a deal of very large size, involving a production capacity of 600,000 cars a year. We claim no royalties and impose no immediate limitations on exports. The advantage to us is that the Fiat car has been seen in a new area, Eastern Europe, which has led to agreements with Poland, Romania and other socialist countries.

Question: In your statement, you differentiate between a binding international agreement for Governments and a voluntary code for multinational corporations. Would there be any sanctions against corporations that refused to comply? How would you regard sanctions in the form of a public judgment by a United Nations organ on the basis of the information supplied?

Reply: That would mean establishing a "black list" of companies that did not comply.

Question: The only sanction would be adverse publicity. Would the multinationals' concern for their public image give that real influence?

Reply: I think that it would. I agree that this sanction would be helpful.

P. O. AHIMIE
Secretary for Finance
Federal Ministry of Finance, Nigeria

Summary of written and oral statement

Nigeria, like most developing countries, happens to be host to quite a number of multinational corporations. With the discovery of oil in Nigeria there was bound to be quite a large invasion of multinational corporations. Consequently, we had the experience of dealing with multinationals from quite a number of countries. But it is not only oil that interests multinationals in Nigeria. We have multinationals interested in trading, in industries and even in plantation farming.

Originally, multinationals in Nigeria came in search of raw materials for the factories of the developed countries. Consequently, we found them first in the extractive industries - tin mining and other kinds of mining and in the exports of raw materials like palm oil, cocoa and other farm products for the factories of Europe.

Most of the multinationals tended to come from the United Kingdom. These multinationals were, at the start, wholly-owned subsidiaries. In fact, there were only branches in Nigeria of companies that had world-wide interests. But, in 1968, the Government decided that any company operating in Nigeria had to be a Nigerian company, and legislation to that effect was enacted so that we were able to know the identity of the organizations we were dealing with, even though they were wholly-owned by multinational corporations. This enactment did not mean that the companies ceased to be controlled from outside Nigeria; but at least there was accountability as far as their activities in Nigeria were concerned, because previously it was difficult to identify what profits, if any, they made in Nigeria or what the progress of the particular company was. That was because the companies' accounts were mixed up with the headquarters accounts and reports. Although we are able to exercise some control over the wholly-owned subsidiary in Nigeria, this does not remove the probability of deliberate distortions in terms of surplus between the subsidiary in Nigeria and the mother company abroad or with another subsidiary elsewhere. But it was at least the first stage in being able to get some insight into what precisely the local subsidiary of the multinational company was doing in Nigeria.

The effects of the multinational companies on sovereignty have always been a problem facing every developing host country. As far as minerals are concerned, as far back as our colonial days, legislation was enacted which made it quite clear that sovereignty in terms of minerals under the ground resided in the Government of the country. Consequently, it is not possible to prospect for oil or other minerals without getting a licence from the Government. This licence does not give the company sovereignty over the minerals since the Government can at any stage step in and withdraw the licence; but, of course, this is not done arbitrarily. But where the licensees have failed to exploit the areas granted to them, the Government has always been able to step in and take it over and grant a licence to somebody else to exploit the area.

During the days of civilian politics, we did not find too much interference by the multinationals with politics in the country. I suppose this was because all the main parties had welcomed foreign investment. Consequently, we found that whichever party was in power did not discourage foreign investment and therefore the position of the multinationals was never really threatened. But they made sure that they were in the good books of the major parties, not knowing which party might win the next election; so they were never really threatened during the civilian regime. Under the Military regime, Nigeria still welcomes foreign investment, but this is now done on the basis of what we consider to be mutually beneficial both for the investor and for Nigeria; and also in areas where we consider that foreign investment is necessary. These are areas where we do not think Nigerian expertise and capital is presently available.

The Nigerian Government has also made it quite clear in the development plans that, ultimately, Nigeria should run the economy of the country. To that end, a number of measures have been taken which will enable Nigerians to take over the management of the economy of the country. Of course, for some time to come, Nigeria will need both the capital and the technology that multinational corporations can bring. But, at the same time, there must be rules about the levels of costs with regard to patents, licences, know-how and management fees. This is to ensure that, while not discouraging the transfer of these skills and technologies to Nigeria, Nigeria does not have to pay too high a cost, a cost which might make it impossible for the economy to bear the transfer of technology and skill.

The country is aware that some multinational corporations use the excuse of management fees and other fees of that nature to transfer profits. In the end, you find that quite a number of companies declare losses every year. It is a mystery why they do not liquidate but still continue in business. Transfers are made in terms of management fees, patents, licence fees and the whole lot. In order to plug such loopholes, the Government has rules which govern the transfer of these fees and limit them to what is reasonable and fair, so that at least a truer picture of how the particular company is getting on in Nigeria will be presented.

The Government has also taken the first step not necessarily towards replacing multinationals but towards directing them to areas where they are most needed. Consequently, the Government recently passed the Nigerian Enterprises Promotion Decree No. 4, which reserves certain areas of economic activity solely to Nigerians, and defines certain other areas where foreign investment is welcomed but Nigerian participation is compulsory. These are areas which Nigerians can either handle now or are at least ready to participate in handling.

In addition to that Decree, the Government has indicated that in certain sectors of the economy it would, on behalf of the people of the country, participate in whatever company is operating in those areas. Consequently, through negotiations the Government has acquired a shareholding in three of the largest banking multinationals in the country. The result of Government participation would be that the policies of these companies would be oriented towards the needs and interests of the economy of Nigeria, rather than being fully dictated by the profit motives of the mother company outside Nigeria. In addition, it is made quite clear that in certain kinds of industries, which are vital to the existence of the economy, the Government would insist on taking at least a 55 per cent shareholding in any company that wished to operate in those areas. The areas are the iron and steel, petrochemical, fertilizer and petroleum-product industries, and also, of course, the oil industry. In the past, these areas were exclusively operated by multinational corporations but the Government succeeded recently in acquiring 35 per cent of the shares in the biggest of the multinational companies in the oil industry and it is expected that the other companies will fall into line.

As of now, Nigeria does not give a licence to any multinational corporation to operate in the oil industry unless the Government has at least 51 per cent of the shares.

Nigeria has been careful in taking over multinational corporations, because it is believed that there is still room for the expertise and technology that they can provide. Consequently, in the banking sector, the Government ensured that the multinationals did not lose interest in running the banks efficiently. The Government acquired a 40 per cent shareholding which was enough to enable it to influence the policies of the banks. The approach is not just a question of wanting to take over somebody else's assets, but of enabling the Government to influence policies so as to keep Nigeria's interest paramount rather than foreign interests. In spite of these policies and the measures that the Government has taken in Nigeria, there is no pretence that Government has been able to close all the avenues for abuse which exist. But it is thought that, with programmes of this gradual nature, the country will be able to identify its problems as they arise and deal with them, without necessarily scaring away the technology and capital that are still required.

Nigeria believes that there is room for regional programmes for dealing with multinational corporations, but its experience is that there is so much variety in countries that it is not quite easy to have a uniform approach in terms of incentives or in terms of restrictions towards multinationals. There are neighbours with which the country is striving to have an economic community, but it is doubtful, knowing the different backgrounds, the different resources and the ability in these countries, if it will ever be possible, at least in the immediate future, to conceive of a uniform approach to the question of multinationals. Nigeria may be able to take over certain kinds of industries because it has the expertise. This may not be true of some of its neighbours. Nigeria may be able to deal more firmly with some multinationals because of the resources that it possesses, but other countries may not be able to do so. Consequently, one should envisage some difficulty in trying to deal with this problem on a regional basis. These problems become even more insurmountable when you start to think about the international level of action. However, a useful service could be rendered at the international level by the dissemination of information on these multinationals.

Many of the host developing countries are at a disadvantage in negotiations with many of these multinationals because they do not know how the companies have been operating elsewhere. There is, therefore, an area in which international action could be very useful: the collection and compilation of information on the multinationals, and the regular dissemination of status reports on various multinationals because experience with some of them has not been very pleasant. If the developing countries had known what they had already done elsewhere, they might never have got involved with some of them. The United Nations and its agencies could, therefore, direct their attention to these areas and really be of service to host countries like Nigeria. One is not sure that much could be achieved by attempting to negotiate multilaterally agreed codes of ethics or codes of behaviour, because some developing host countries would be so pushed that they would not be able to adhere to some of the rules because they needed the technology and capital that only the multinationals could provide.

Summary of replies to questions *

Question: Has there been political interference by multinationals since the establishment of the Nigerian Enterprises Promotion Decree?

Reply: Although there is a tendency for various interests that are affected to bring pressure to bear in terms of modifications in the application of the legislation under the Nigerian Enterprises Promotion Decree, there has been no political interference so far in the case of Nigeria and none is envisaged. The reason for this is probably the fact that the Decree is not over-ambitious. Rather than driving away multinationals, the Decree has merely redirected their investments to the areas mutually beneficial to them and to the Nigerian economy. Nigeria feels reasonably satisfied with the way the laws are now working in the country.

Question: How is the training fund collected and expended?

Reply: A small percentage, based on the level of employment and turnover, is contributed by each firm for the local or overseas training of employees. Firms which have training schemes are reimbursed a percentage of the training expenses.

Question: What stage has been reached in the formation of the West African economic grouping?

Reply: The nucleus of the grouping has been formed by Togo and Nigeria. In November, 1973, a meeting of the Ministers from all the various West African countries was held in Lomé, Togo. Although it is not easy to guess

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* Questions were asked by Messrs. Miller, Sadli, Mansholt, Somavia and Uri.

how soon the economic grouping will become a reality, a lot of progress is being made.

Question: What steps are being taken to ensure that multinational corporations stimulate rather than displace local enterprise?

Reply: Nigeria is conscious of the fact that multinationals could drive away local entrepreneurship in many areas. To guard against this, the Nigerian Enterprises Promotion Decree was promulgated to ensure that the areas in which Nigerian expertise exists are exclusively reserved for Nigerians so that local entrepreneurs are not shut out. It is also realized that Nigerians could acquire both managerial and entrepreneurial skills if they participated in the higher technology industries. To that end, the Government has selected some of these industries and has insisted that Nigerian equity participation in them should be at least 40 per cent so that Nigerians will be able to influence the decisions of the companies and ensure that Nigerians are trained in the appropriate technologies.

New enterprises coming into Nigeria have to obtain business permits, which enables the Government to be selective about what the companies come to do, to determine the areas where they are to be sited, and also to control the number of non-Nigerians which the companies will bring in. The Government ensures that the expatriate quota licences granted to companies are subject to renewal from time to time, so that these companies will replace the non-Nigerians they brought in with Nigerians they train for the jobs. In the oil industry, there is a scholarship fund to which companies in the industry contribute for the training of personnel for the oil industry.

Question: Will regional groupings enhance the bargaining power of developing countries?

Reply: It is going to be difficult to adopt a uniform approach to multinationals within a regional grouping because the circumstances of each country differ so widely. Countries which are relatively more highly industrialized will welcome the enlarged market, because with the bigger market the level of production could be such that the products would be cheaper.

Question: What is Nigeria's policy in regard to controlling participation?

Reply: The areas in which Nigeria intends to have a 55 per cent controlling equity from the start are areas which have not yet been exploited, namely, the iron and steel industry and the chemical industry. Any company that wishes to enter those areas will have to concede a 55 per cent controlling interest to the Government. As regards the old oil companies, Nigeria decided to acquire by negotiation 35 per cent of their equity to start with. In new oil corporations that are coming into the country, Nigeria will have at least 51 per cent.

In the fields where the Government has less than a 50 per cent interest at the moment there are still ways by which it can wield influence. In the case of banks, for example, the Central Bank of Nigeria has certain powers over the individual banks. With the presence of Government representatives on the boards of the banks, the Government's views, interest and approach will be known right at the board level.

Question: Has Nigeria been under any external pressure to welcome private foreign investment?

Reply: Nigeria is in a position where some donor Governments believe that foreign investment, and not Government to Government aid, is what is needed. An international organization like I.F.C. would only come to the country in partnership with private investment and not with Government investment. During the civilian régime it was not necessary to pressurise the political parties because foreign investment was welcomed by most of them. The military régime has not departed from welcoming foreign investment, and, therefore, the pressures have not been as overt as they might have been, even though the régime has been selective in the choice of investment.

Question: What is the impact of the multinationals on the lives of ordinary people in the developing countries?

Reply: It would be unfortunate if Governments looked upon the multinationals in terms of spreading the good things of life. It is the responsibility of Governments to see that the good things of life are spread right down the line, and, this being so, every Government tries to get as much as it can from multinationals by taxing them on their profits. In some cases, multinationals provide houses, drinking water, and many other services, but these are what Governments should do themselves with the taxes on the profits of multinationals.

Question: Should local multinational corporations be formed within regional groupings?

Reply: Nigeria would like to see local multinationals take over from foreign multinationals, when an economic grouping takes effect. Already there are the West African Chambers of Commerce, Industries and Mines. Nigeria encourages the formation of such organizations and her influence is very much felt, in the sense that most of the officers of the Chambers are Nigerians.

Question: Should technology be specially adapted for the developing countries?

Reply: Nigeria does not negotiate with multinationals on the kind of technology they would bring each time they want to come. Most of the multinationals that operate in Nigeria use whatever technology they want to use to enable them to compete in the market. Nigeria will not seek to protect companies the cost of whose products become prohibitive simply because they are using eighteenth century technology.

Question: Is the type of technology one of the variables taken into account in Nigeria's selective process?

Reply: Nigeria is selective, not in terms of the technology that multinationals are going to use but in terms of the industries that come in, because some industries are of higher priority than others for the development of the country.

Javed BURKI
Chief, Industry and Commerce Section
Planning Division of Pakistan

Summary of written and oral statement

The view of multinational corporations held by developed nations which have succeeded in ensuring a certain standard of living to their people differs completely from that in developing nations still trying to achieve these standards. From the theoretical and technical viewpoint, using the criterion of efficiency alone, multinational corporations, with their organizational skill and ability to combine expertise in all sorts of fields in a package that can solve almost any developmental problem, are recognized to be remarkable. Their main characteristics, however, have serious implications for the developing world. This is their size and oligopolistic nature. Next, they are the product of the developed countries exclusively. In recent years, their overseas affiliates have increased in developed countries far more than developing. Moreover, while affiliates in developed countries serve international markets, those in the developing countries serve chiefly the local market. In the developing countries multinational corporations are mainly engaged in the extractive industries, while in developed countries they are chiefly in the manufacturing sector. Lastly, their presence in the extractive field in the developing countries is gradually being reduced, diluted or eliminated. Three main characteristics of their operation in developing countries can be deduced from these facts: first, they deplete the resources of developing nations instead of adding to them; second, their presence in manufacturing in the developing countries, aimed at the local market, does not lead to greater integration of the host country's economy with the rest of the world, and

and lastly, the developing countries are always host and never home countries to multinational corporations. It is no wonder, therefore, that multinational corporations are looked upon in some quarters as key instruments for maximizing world welfare and by others as dangerous agents of imperialism.

Multinational corporations are not very important in any single industrial branch in Pakistan, they do not seriously infringe upon its sovereignty and they are not of great consequence as regards the flow of capital into Pakistan. Pakistan's concern is related to the future development of the economy and specifically to the overwhelming control exercised by multinational corporations over patents and manufacturing know-how. Whenever a developing country wishes to move out of the first stage of manufacturing, it finds that the only agency it can turn to for technical know-how in the developed western countries is the multinational corporations. These huge corporations make a point of ensuring, through restrictive clauses in their agreements for technical co-operation, that their monopolistic position is not threatened by the emergence of new firms independent of them.

That very important point was not properly stressed in the Secretariat report. In countries where the presence of multinational corporations is substantial, the question is one of modifying their operations, buying into them, and letting people of the host country participate in the decision-making of the affiliates of multinational corporations operating there. For countries like Pakistan, where the physical presence of multinational corporations is not very important, the question is one of controlling the global operations of the multinational corporations - which obviously the developing countries cannot do.

The operations of multinational corporations are governed by the laws of economics: they do not set out deliberately to sabotage the development of the developing world. However, the objectives of multinational corporations, based as they are on purely technical considerations of maximizing profits and expanding their operations on a world-wide scale, run completely counter to the objective of narrowing the gap between the rich and poor countries. In the Secretariat report, the greatest stress as regards control is on modifying those operations by multinational corporations which hurt developed and not developing countries. Four developed countries are host to four-fifths of the multinational corporations. Clearly, the activities of the multinational corporations are very important to them. To suggest a decrease in the world-wide economic power of the multinational corporations is tantamount to suggesting a reduction in the international political and economic influence of the major host countries. That point should be kept in mind in considering the problem. Moreover, the expansion of the activities of multinational corporations may well mean that the age-old conflict between rich and poor nations will be converted into a struggle between developing countries and multinational corporations. That potentially divisive role should be brought out in the Group's report. In view of the close connexion between the operations of multinational corporations and the interests of the developed countries, the warning in the Secretariat's report against a "frontal attack at the international level" is wise. I therefore support the proposals in the report whereby the developing nations would have access to United Nations expertise on multinational corporation operations and a store-house of information would be built up under the aegis of the United Nations, on which multinational corporations could draw for help in their negotiations with multinational corporations. I am in favour of an international forum and a multinational corporations information centre, both in the United Nations, and the creation of technical expertise within the United Nations in respect of multinational corporations.

I would also be in favour of guidelines and rules of conduct for multinational corporations and a powerful supra-national machinery to back them up, but I realize the problems that this would cause. I therefore agree with the suggestion of a less powerful form of machinery in the form of a GATT type of agreement on multinational corporations. There is a need for research into the potentially divisive effects of the multinational corporations on the world economy. It should be oriented towards identifying these aspects of the nature and operations of multinational corporations which force developing nations to resort to them. Is it their control over finances, technical know-how or markets, or is it their ability to combine all these into a package? The answers to these questions could be used as a basis for further study of ways and means of creating neutral institutions, under the aegis of the United Nations, capable of performing some or all of the functions which so often make the multinational corporations the only agencies to which developing countries can turn for many vital industrial projects.

Summary of replies to questions *

Question: To what extent do export restrictions actually inhibit exports?

Reply: We try to reject export restrictive clauses but often have no alternative but to accept them or forego the technical assistance altogether. Although many agreements relate to industries in which we may not appear to have a comparative advantage in international markets, we find that under pressure the local subsidiary of a multinational corporation quite often comes up with a profitable export order.

Question: How is external pressure applied in favour of foreign capital?

Reply: External pressure is applied through the aid-giving policies of home countries in favour of foreign investment. Political leverage is quite often brought to bear on the Government in favour of the foreign company.

Question: Do developing nations have detailed industrial development plans within whose framework multinationals can operate, and is it acceptable to developing nations to take disputes with multinational corporations to the World Bank Centre for Settlement of Investment Disputes?

Reply: Our plans specify that there will be no nationalization of foreign investment and disputes between Pakistani and foreign companies are usually amicably settled. I belive that we adhere to this convention, i.e. the World Bank Centre for the Settlement of Disputes. We find that we can control the operations of the multinationals through our fiscal, monetary and exchange rate policies.

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* Questions were asked by the Chairman and Messrs.Jha, Browaldh,Weinberg(cons
Somavia and Dunning.

Question: What alternatives to the multinationals are there for developing nations?

Reply: In view of the integral part which multinationals occupy in the economic structure of the developed world, I do not see how their influence and spread of activity can be curtailed except by tapping alternative sources for the technology, finance and expertise which the multinationals have to offer. These alternative sources can be the socialist countries. As far as the West is concerned, the only solution would appear to be to take away from the multinationals control over technology and markets, possibly through institutions such as the World Bank which, instead of limiting itself to finance, could move down the line into transferring technology also.

Question: How should technology be adapted for developing countries?

Reply: There are some misconceptions on this point. To begin with, the major portion of industrial employment is usually in small-scale industries. In Pakistan, 75 per cent of industrial labour is employed in small-scale industries which use fairly primitive technology completely suited to local conditions. Large-scale industry is not looked upon as a means of solving the unemployment problem. It is merely a sector in which commodities are produced in the most efficient manner possible.

Whenever a manufacturing process is transferred from a developed to a developing country, some adaptation must take place, because in most cases, high production volume processes must be adapted to produce low volume for the smaller markets of the developing world. Very rarely will the technology and manufacturing-process be duplicated in the developing country.

As far as the dangers of tying the development of small-scale industry to multinationals through sub-contracting is concerned, we do not find this to be much of a problem in Pakistan because the small-scale industrial units rarely have production machinery limiting them to one product only. They are able to switch to other products in the event of the sub-contracting agreement being terminated.

Question: What is the impact of multinationals on the lives of ordinary people in the developing countries and their adverse effect on income distribution in these countries?

Reply: The presence of multinationals in Pakistan is not substantial enough to enable a judgement to be passed on their impact on the lives of the common folk. One could, however, say that such impact is usually beneficial because of the good terms and conditions of work offered by multinationals. As far as income distribution policies are concerned, it would help if multinationals went into joint ventures with Governments in order that profits could flow to government revenues and through them to infra structural activities such as health and education which benefit the common man.

Question: Should there be international rules to prevent multinationals from engaging in export restrictive clauses in deals with the developing world

Reply: Any such control over the multinationals would be most acceptable to us, but would not be acceptable to the multinationals or to the developed home country which will be unwilling to give up international markets to firms originating in the developing world.

Question: Why are the developing countries averse to intermediate technology, desiring instead the most modern technology?

Reply: The question of intermediate technology is being over-simplified. The most modern technology cannot be transferred to developing countries because such technology is invariably related to very high production volumes which do not exist in developing countries. In transferring technology from a developed to a developing country, some adaptation in the technology is always necessary to convert it to the requirement of lower production levels.

Question: Would the lower-volume technology of medium-sized multinationals be more suited to the developing countries?

Reply: It is true that medium-sized multinationals offering a lower volume technology would be much more relevant to the developing world. An example is the use by many Eastern European countries of technology borrowed from the West 15 to 20 years ago and still applied there. This technology is relatively low production-volume oriented and produces goods well suited to the markets of the developing world. This is the sort of technology that we would like transferred to us.

Sir Val DUNCAN
Chairman and Chief Executive Officer
Rio Tinto Zinc Corporation

Summary of written and oral statement

I believe there is a code of good corporate behaviour, the spirit of which is appropriate throughout our own industry wherever we are mining and may well be applicable to others. This code can be summed up as follows:

First, one should aim for a progressive degree of local autonomy in decision-making, subject only to the very minimum co-ordination at the centre. It is mutually agreed that this central co-ordination is necessary if the Group is to take advantage of the strength - financial, commercial and technical - which obtains at the centre.

Secondly, we should seek to employ as high a proportion of nationals of any host country as possible, including senior management. You must have first-class men and women and you will only get them and retain their loyalty and enthusiasm if you observe the move towards autonomy to which I have already referred. One should be realistic however, in not expecting people to run before they can walk; the main thing is the motivation.

Thirdly, we should aim to ensure that a majority of the Board of each overseas corporation are nationals of the host country. This helps to ensure that not only the population but the Government of that country feel they can resolve their problems as far as possible within their own national frontiers, though clearly such matters as educational standards and experience must be taken into consideration. It is right that the heads of our major businesses overseas should talk with their own Governments, both ministers and officials. What normally happens in practice is that the parent company develops a relationship with ministers in the host country at the inception of a new industry and this relationship is then developed by those nationals who take senior positions. At the same time representatives of the world headquarters remain welcome to take part in these counsels when appropriate but of course in concert with the senior nationals.

Fourthly, we must be sensitive to the reasonable aspirations of host countries. By this I mean we should be good corporate citizens. It is less easy to define how one should go about this, but I can give you an illustration in our business by saying that I think it is totally unreason for us to regard host countries as a useful quarry for hewing raw materials, regardless of any processing in that country. I believe we have strong obligations in this respect and in some cases, of course, they are imposed on us by Governments. Whether they are or not, we should endeavour to achieve a balance of processing not only in the countries where the raw materials come from, but also in those highly industrialized consuming centres of the world who also must have this expertise.

Fifthly, I believe it is important that the population of any overseas host country should have the opportunity to participate financially in the major enterprises of their country.

I do not think it necessarily desirable to associate the local population with a direct participation during the exploration phase of mineral developments. This is a highly risky business and certainly less than one in twenty of the prospects that we look at turns out to be a mine. Once, however, the major risk stage has been overcome, and in certain cases this may not be before the run-in operating programme has been completed, then is the time to offer a local participation which of course can legitimately stand a reasonable premium price if the economics are justified, and particularly in view of the prime risks taken by the initiating corporation. It may be that the country has no stock exchange, in which case the shares might be held by the Government. We have no objection to Governments as shareholders - in fact, we rather welcome it on suitable occasions because there is nothing like having Governments identified with the equity share capital, for it enables them to see the problems through the eyes of the shareholder and not only as a recipient of royalties and taxes.

Mankind has at last realized that we must reckon the price of industrialization before we carry it out, rather than afterwards. Moreover, we have all realized that what is apparently the cheapest way of doing something in industry can turn out from the national point of view to be the most expensive, for it has destroyed in many places the amenities which become more and more essential for mankind to ensure his spiritual refreshment as a counterbalance to the speed of urban life and the tensions it creates. There is no thinking person who, with hindsight, would feel that society in densely industrialized regions could not have been more intelligent when planning some of our industries, and at least minimizing in reasonably economic terms the pollution and sometimes devastation from which, in certain parts of the world, we are now suffering.

I am particularly concerned about the relevance of this subject to the natural resource industry, for mankind has to win minerals from the deposits where he finds them, not necessarily where he would like them to be, owing to the formation of the earth's crust.

In some cases mineral deposits occur in areas where, with no major increase in capital costs, the ecology and environment of the area is undisturbed. In other areas substantial increases in capital costs may be inevitable. Indeed, some deposits may be quite unmineable because the price for not disturbing the environment is too high. Unfortunately the techniques of exploration have not yet reached the stage when the growing demand of mankind for raw materials can be satisfied without selecting for mining areas which we should prefer to avoid. Therefore a choice has to be made as to whether ecological and environmental considerations should always take precedence over raw material demands which are entirely essential for rising living standards in a world enjoying a major population explosion.

The principal reason why I decided to present to you some of the considerations affecting the financing of major mining resources is that they are, I believe, unique in terms of the time scale before such projects become revenue-producing.

Normally, an industrial complex for manufactured goods is revenue-producing within two and a half to three years from conception. Even in the oil industry, where there may be vast sums spent on exploration, once discoveries have been made development is rapid, though admittedly more delayed in ocean deposits.

In hard rock mining, even after the exploration programme, there is probably a period of around seven years during which escalating expenditure occurs and during which time interest rates on borrowed funds are accruing to increase greatly the bare cost of bringing the complex into production.

In my Corporation, we actually spent nearly $30 million of high risk money before we organized the principal finance raising of some $400 million to bring a particular project into production.

This is a measure of the risk in the mining industry, which has to be counter-balanced by the prospect of large rewards if investors are to be persuaded to back the management of mining corporations in commiting funds of this magnitude.

It is not only shareholders who are concerned with this problem. It is normal in natural resource developments of considerable magnitude for mining companies to borrow very large sums of money from banking institutions in order to find the total funds necessary to carry out the project. We try to finance new mines with the highest possible ratio of debt to equity and a satisfactory ratio is only forthcoming to corporations of undoubted financial strength and experience who can give the bankers the required completion and performance guarantees. Bankers in addition require some assurances that the production of the mine will be sold in advance to consumers in order to provide a sufficient surplus of revenue for the repayment of their debts. These sales may extend over a long term of years. This highlights the necessity for a corporation to assume complete authority over production, marketing and finance since upon these depend its ability to enter into large-scale financing arrangements and give the necessary guarantees.

Other factors which the banks will take into account are such matters as tax treatment by the host country, in particular whether there is a tax free period, and whether provision is made for accelerated depreciation, the treatment given so far as tariffs are concerned to the plant and equipment which have to be imported, and the reputation of the host country in regard to transfers across the exchanges for service of debt.

Our sense of practical idealism about what we are trying to achieve makes us conscious of the fact that the philosophy will no doubt develop with the advance of public consciousness in many fields. We are grateful to have the privilege of being the impetus that creates wealth, that transmits expertise. We are content to be judged by our performance.

Summary of replies to questions *

Question: What is your position on the allocation of scarce raw materials?

Reply: It is extremely rare that one gets such a shortage in hard rock minerals, in base metals, that there has to be an allocational system worked out. It is left to the companies to do the contracting for the sale of these commodities, and I think that host Governments on the whole are pretty careful not to throw over existing contracts, which may be long-term contracts, because it is a matter of great importance to the future trading position of that country that its credibility for honouring contracts should be high.

Question: Can MNCs operate with a country retaining ownership of its mineral resources?

Reply: I think this is perfectly possible. I would be quite prepared to see my own corporation go into propositions where there is actually no ownership at all on the part of the corporation of the deposit or even of the lease of the deposit. Any great natural resource development is really rather expensive and costs a great deal of capital investment. Now if the corporation is responsible for finding that money and staking its reputation on that money by means of loans, then I think it is obvious that they have to have a strong equity position or something very equivalent to it because otherwise the money will not be forthcoming. Many of us are very willing to help, in the planned economy countries, to have some form of partnership or joint venture. We will almost certainly find that there is no normal capitalist structure and therefore no equity position, so we talk about "para-equity".

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* Questions were asked by the Chairman and Messrs. Mansholt, Weinberg and Mil[illegible]

It can be done on a straight-fee basis; it can be done by carrying out services with regard to the handling of the export commodities once the surplus is exported. I think it is a duty of mining corporations to make sure that they allocate the talent of their corporation in a manner which is acceptable to the community where they are operating as well as to the employees themselves, and in the shareholders' interest.

Question: What is your position on joint ventures?

Reply? There is no absolute necessity on the part of mining companies to have forever a de jure majority holding in equity in all corporations. There are certain factors:

(a) We can only consolidate anything which is a controlled situation, and that makes it highly desirable to have more than 50 per cent;

(b) It is unlikely that you will get full financing with a lot of loans unless you do have a rather strong equity position in the whole affair;

(c) You must have the authority to make the necessary decisions in any big project, to make quite sure that it works and make quite certain that nobody else has more shareholding than you have, because otherwise you can be outvoted, which is impractical when you are trying to manage a new enterprise;

(d) The only exception to that would be if you have a Government involved where maybe there would be no equity at all.

If you start with a $300 or $400 million operation, it is not normally possible to find a Government prepared to take a major percentage. So, I think the "sliding-scale downwards" is quite a good idea. Provided that you can continue to use your expertise in an unimpeded manner--as a totality--then you can well end up perfectly satisfied with 40 per cent equity in any project. On the matter of local participation: I personally believe that the discipline imposed on you by having a lot of minority shareholders in these various countries is a very good one.

Question: What are your views on international supervision?

Reply: I do think this is very difficult. My own feeling would be that at this stage it would be rather wiser to suggest that if a country feels itself so inexperienced that it would like some help from a United Nations entity, this could be done. I merely say from my own experience that it did in fact delay things, and did not have a net effect of great importance at all to the agreement.

Question: What is your position on investment in developing countries?

Reply: We are in a competitive situation. I cannot tell the bankers that their interest rates are usurious and that they should let us have the money cheaper so that we can do a better job for newly-developing nations. I have to pay the going rate. As far as my corporation is concerned, another factor is tax incentives. We do not use the yardstick of the incentives as the be-all and end-all of our judgment as to where we should operate. One of the real problems today is the withholding taxes everywhere around the world. I sincerely hope myself that in the next few years there will be a very big move in the other direction, just as there is with the tremendous efforts to try to reduce tariffs and non-tariff barriers.

Question: What wages and benefits does your company pay to black workers in South Africa?

Reply: In South Africa the ratio of wages of daily paid workers, that is white to black, is three-and-a-half to one. We are above the poverty datum line with all our categories of labour, of people working with us, both black and white, in South Africa. We have an unusual situation in South Africa, because we have none of this compound labour, so we are in a very much better and fortunate position. We won't take on compound labour or contract labour. We are allowed to recruit anywhere within the Republic of South Africa and we have a very high proportion of married families. Some of the houses now just beginning to be occupied by Africans are equivalent to many of the houses which the Europeans are living in. As regards fringe benefits, we also have pension funds which are the same for black and white. Where there is the same job, e.g., chemists, the salary is exactly the same for black and white. We do a good deal of training of the black people and they are advancing considerably from a few years ago. What we try to do is to train people in higher and higher jobs without trying to destroy them by giving them something they cannot do.

Question: What are your views on disclosure of information?

Reply: There are some things which are totally confidential between us and Governments, which we should under no circumstances disclose. In our case we have so many public companies where we have local shareholders that the idea of non-disclosure would be fantastic anyway. It automatically happens where you have minority shareholders; it must happen. So we are quite used to it.

Question: What is your position on technological information?

Reply: There are simple cases in my organization where there are no problems. One smelting process is on equal terms to Germany, France, Poland, Japan, Zambia, China, to mention a few countries. So far as patents are concerned, we patent a process in those countries where we hope to use it later on, with one specific exception. When we find something which certainly takes away some health hazards, we give it to the local industry everywhere, because this is in the interest of health. For the rest, it is a commercial undertaking, and we would like to have a return.

Question: What are your views on international action?

Reply: On international action I agree with Sir Ernest Woodroofe of Unilever; there might be an arbitration body where multinationals and Governments might be brought together to discuss a potential conflict. I would say that if we could keep some sort of dialogue going, something might emerge out of it.

Thomas FAHEY
Vice President, Sales
General Tire International Company

Summary of written and oral statement

General Tire International is a multinational firm with an approach to world business which differs from many of the companies which have already participated in this panel. We specialize in joint venture operations involving partnerships with overseas investors.

We operate in a competitive, fast-changing industry which, despite the mundane appearance of the finished product, requires a high degree of technology, heavy initial investment and very considerable expertise.

There are tire factories in 78 countries. Within 10 years there will hardly be a country which does not have one. Developing nations usually put tire production high on their list of industrial priorities. Tires require considerable hand labor to build. As emerging nations become motorized, tires become a strategic material of basic national interest.

General Tire is the fifth largest American tire manufacturer. However, we have developed some 40 operations in 26 other countries. It is probable that we were first introduced into mixed partnerships because originally we were not very big. We may not always have had the financial means to participate as 100 per cent shareholders in the ever-growing number of markets which were asking for tire technology. Thus, we became accustomed to the joint venture posture. It proved to be very successful for us and has now become a corporate way of life.

We do business overseas in a number of ways:

- Through joint ventures in which General Tire takes an equity position. We supply the technology and provide management. Our partners may be government entities, local investors or both.

- Through transfer of technology under a technical service contract with sale of know-how and royalty rights on an extended term basis. This is usually linked with an agreement whereby we also provide management on a contract basis.

The United Republic of Tanzania is a socialist state with a planned economy and is classified among the developing countries. It requires that foreign investors take only a minority share in major industries. Such circumstances frightened off some of our competitors. General Tire entered into a joint venture with the Tanzanian National Development Corporation to establish the first tire factory in East Africa. General became a minority partner, supplying technology and management on a contract basis.

Because our local company became a state-connected entity, we were, in effect, part of the Government and the Government was part of the tire factory. They have proved to be very fine partners. Our goals became common ones. We were not in conflict with the Government because we had become <u>part</u> of it and our operations were in full harmony with local interests.

When General went into Ecuador some 10 years ago, it was a very marginal market to support a tire factory. In this case, we joined as minority partners with a group of local businessmen, most of whom had been tire importers.

The factory was located in the city of Cuenca almost at the top of the Andes. This was not the most logical place for a tire factory, but we acceded to the desire of the Ecuadorian Government to place the factory in Cuenca because it had become an economically distressed area. This had come about due to the demise of the "Panama" straw hat industry which had originally been centered there. This is an example of how a multinational company can be responsive to local needs.

In conjunction with our operation in Ecuador, General initiated a programme to develop rubber plantations. Although climatically suited for rubber cultivation, Ecuador had not cultivated rubber trees on a commercial basis. We, as a company, did not propose to become rubber growers. General set up an experimental rubber plantation to develop strains of rubber trees adapted to Ecuador's climate. The primary purpose is to furnish know-how to planters, providing them with young trees to establish their own independent plantations.

Ecuador is capable of producing one of the major components for tire manufacture and so we are developing the raw material source or secondary industry as suppliers to our manufacturing company. This is a case of reverse or "upstream" integration.

In India we have adopted a totally different and somewhat unique arrangement. When the Indian government decided to de-centralize the tire industry, and de-emphasize the dominant foreign ownership in this field, it was proposed that individual Indian states should have their own tire facto

Under normal circumstances, such relatively small factories would not be viable, and, in truth, local investors in India found it hard to find international tire companies willing to supply know-how on an individual basis.

General has worked out a programme in which we plan to provide the technology for the erection and operation of a number of tire factories. We will establish in India a Centre for the dissemination of technology to all of these new factories. This Centre will serve not only as a local consultancy but will channel all of General Tire's technology to these infant tire factories. It will provide a central point where basic development and research can be carried out specifically for the needs of the Indian market. General's participation will be on the basis of an extended term technical service contract.

For many years General was a joint venture partner in the only tire factory in Chile. When the Allende Government took over, the tire industry was nationalized, but General was invited to stay on, with our original minority participation, and to supply the technology required for their tire manufacturing operations. We were, in effect, partners in a state enterprise run by a socialist Government. We maintained a staff of our international technicians in the plants throughout the entire period; and, from a technical and manufacturing point of view, there was no incompatibility.

When the situation changed, the new Government in Chile called upon our company's expatriate and Chilean staff to again resume the general management functions.

Throughout changing circumstances, our situation in Chile has remained satisfactory. We attribute this to our minority participation, a low profile, straight-forward supply of technology, and a pragmatic approach to partnerships.

Because General Tire has been willing to work either as partners or as suppliers of technology on a fee basis, our company has found acceptance in Eastern Europe and other socialist states. We have initiated construction of a very large tire plant in conjunction with the Romanian Government.

Our agreement is to supply the initial technology for plant design and construction and to supply them equipment. We will provide the on-going know-how, with an option to take a financial participation in the future. The production involves manufacturing techniques so new that an important part of the machinery is being developed, even as the plant building is going up.

The joint-venture concept is not an easy one for companies or managers who are accustomed to enjoying majority control. The main problem of foreign management when they become involved in local partnerships is having to serve two masters: the home office, plus the local partners. This is a major stumbling block, yet inherently it is one of the secrets of success of a mixed-capital operation.

Multinational companies operate within the framework of the laws and regulations of each host country. They are also subject to legislation and scrutiny in the country of their own corporate home base. Under these circumstances, it cannot be said that multinational companies are footloose and acknowledge no master. We are under far greater constraints than most businesses which function in only one community.

There is little merit in adding incremental layers of international authority. A new supranational watch dog committee to oversee the activities of multinational companies would be superfluous.

Much has come from the meetings already held by the United Nations. It was summed up rather neatly during the sessions in New York when Mr. Mohammad Sadli, Chief of Indonesia's Foreign Investment Board, made this comment:

> "Often people from developing countries are somewhat afraid of multinational corporations. They view them as big bad wolves, and we are poor little sheep. But now I find that you are also afraid of us. So maybe there is some kind of parity. You probably have greater economic power. We probably have greater political power. And there would be some kind of parity sufficient for productive engagement and dialogue."

We whole-heartedly agree. Multinational companies and nations can deal with each other on totally equitable and amicable terms. The United Nations is an ideal forum to bring about the needed understanding and trust. All of us will share in the ultimate advantages.

THOMAS FAHEY
General Tire International Company

Summary of replies to questions*

Question: Does anyone object to the proposition that no multinational corporation should prohibit its subsidiary from exporting?

Reply: Not an objection, but a practical observation. All countries cannot expect to be competitive in export markets. Many a foreign enterprise has been founded with the requirement that a certain percentage of its production must be exported, only to find that it is a false promise which can never be realized. Commitments to export should be looked at with great realism.

These days it is unlikely that a multinational company could prohibit a subsidiary from exporting. As you know, the Common Market in its regulations prohibits the licensing of a product in one country only. The product must be free to move into the other Common Market countries. Likewise, the United States in its laws regarding the restraint of trade prohibits a United States company from limiting the market where a distributor may sell. Theoretically, he can sell anyplace in the world, and we cannot legally prohibit it.

Question: What role do you see for the medium-sized company in contributing more to the development of developing countries? Do you have certain advantages of flexibility compared to the biggest companies?

Reply: Our "weakness" is our strength. As a smaller company, we do not frighten the smaller nations. They feel that they can deal with us. When a giant enterprise moves in, a small nation tends to be frightened and

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* Questions were asked by the Chairman and Messrs. Dunning, Komiya, Ivanov, Estrany y Gendre and Somavia.

think that perhaps it is going to be pushed around. This leaves a wide open area of business for the smaller company. It is probably one of the reasons we have concentrated on less developed nations.

The flexibility and willingness of a smaller company to make concessions -- not to insist necessarily on majority control -- carries over well to working with the socialist countries and the ones with planned economies. Because we can be flexible, not insisting on total control, we fit in more readily and find ourselves more welcome in this type of environment.

Question: Is not the price of tires produced in countries like Tanzania and Ecuador considerably higher than imported tires? To what extent are your joint ventures commercially viable if import duties and quotas are all abolished, and what is the possibility of exports of tires from these countries to the other countries?

Reply: It is true that in countries with a relatively small market the limited volume of production causes costs to be higher than imports from massive factories in Europe, America or Japan.

Sometimes the solution lies in regional integration. If a regional market such as the East African Community or the Latin American Free Trade Area represents a big enough multiple but protected market, then, of course, a tire industry can be economically successful. I think you have to balance two factors, the desire of nations to create industry and self-sufficiency, balanced against the cost. It is a question of which is of greater interest to the country.

Question: In your corporations, do you have long-term plans -- 5 to 10 years -- for co-operative development? To what extent do these plans take into account the development plans of the country where you operate?

Reply: Our management keeps very closely advised on the development plans of the countries where we operate factories. A greater problem is to keep up with all of the long-term plans established in other countries. We watch for everything having to do with the automotive or tire field. Your development plans are very important to us. Planning comes first from you and we must then follow it up.

Question: What is the real contribution of joint ventures? If one of the partners is in the minority, it would seem that the joint venture does not contribute much. If an enterprise is 50% local and 50% multinational, who really takes the decisions?

Reply: Joint ventures are seldom the same as a marriage, where everything is theoretically 50/50. In fact, I have heard it said that a 50/50 joint venture is a business disaster waiting to happen ... because nobody has the final say. Consequently, our concept of joint ventures is that somebody must have the majority. If we are in the minority, we accept it and we realize that we are going to have to give in on certain things.

In some of our companies where we have a minority participation, we supply the management and run the business as though it were ours because we have the best interest that it be successful. Our Managing Director in these cases has to be a tremendous diplomat to do the job, trying to get the other partners to see it our way. We don't always get our way and we have learned to accept it. So, if you learn to give up a point on occasion, normally you can run the business successfully.

You asked "Why would anyone enter into a minority partnership?". Well, it usually is a cold financial decision. If a local entrepreneur has a good name, but sees he cannot really grow because he lacks financing or know-how, he can still capitalize on his strong local position. He goes outside to the world industry and finds somebody willing to join him. He may give up majority participation, but he knows that his investment is going to be revalued by joining with a great international company. It is a case where 1 + 1 makes more than 2: the local expertise and management, plus the international know-how makes a winning combination. That is why people enter joint ventures on a minority basis and are glad to do so.

Question: In the future do you see companies going into more joint ventures with Governments or with private enterprise? What sort of combination would seem to be more secure or tranquil for co-operation in developing countries?

Reply: I think we are going to see more and more multinational private investment in co-operation with Governments. I say this for two reasons. State-owned industrial development corporations of many types have become more prevalent. The emerging nations have been leaning heavily on this medium. Secondly, the socialist nations, especially the Eastern European countries, have begun dealing more with the Western world. If we are to go into business operations in those countries, obviously it has got to be in conjunction with the Government. The socialist countries have begun to look for ways to permit and encourage joint ventures.

I think that in the future of multinational business, the greatest change we will see is more partnerships between business and Governments.

Mr. Peter GOLDMAN

President of the International Organization of Consumers' Unions

Summary of written and oral statement

Last year a 35-year old English woman, mother of three children, went on holiday to Spain. She caught a cold, stopped by the local chemist for a remedy, and was given a medicine containing the drug chloramphenicol. Within months she was dead, of aplastic anaemia. Chloramphenicol is a product of multinational drug companies and widely available throughout the world under various brand names, of which Chlormycetin is the most common. For typhoid and one kind of bacterial meningitis it is the recognized remedy; for other illnesses there are remedies as good, so there is no need to use it. And it ought particularly to be avoided by people who have anything wrong with their blood, kidneys or liver, by infants, by pregnant women, and most of all by anyone undergoing radiotherapy. The International Organization of Consumers' Unions recently concluded a survey of how consumers are protected from this danger. The results were not comforting. In many countries, chloramphenicol can be bought over the counter without a doctor's prescription. Of the 55 brands examined from 21 countries, not one warned against all the conditions in which its use was contraindicated. Many failed to warn against serious, and possibly fatal, side effects. Most extraordinary of all, there were very wide variations in the warnings given with the same brand produced by the same company in different countries.

Such blatant abuses by multinational companies are the easiest to detect and expose and therefore, hopefully, to remedy. The instructions for Chlormycetin are supposedly being standardized. But there are many other manufacturers of chloramphenicol, and many other products lending themselves to the same or similar abuse. Pharmaceutical companies have little hesitation in selling, either directly or through the establishment of subsidiary laboratories or mixing plants in host countries, drugs which not merely fail to carry the same warnings as are mandatory in their home country, but drugs which may actually have been prohibited there. A research team sponsored by one of the senior affiliates of the International Organization of Consumers' Unions visited 16 countries in Latin America and the Caribbean this summer and found so many examples of these abuses that, after the third country, it had to call a halt temporarily. Now, of course, it is right that sovereign Governments should take the responsibility for looking after the safety of their own citizens - or, for that matter, of visiting tourists. But warnings and recommendations have to be put on drugs by drug manufacturers. It is their moral responsibility to see that the instructions are accurate, clear and unequivocal: and it is intolerable that they should evade these responsibilities, and endanger health and life, because legal controls in one part of the world are less stringent or effectively enforced than in another.

I do not wish to impute an uncommon degree of callousness or venality to those who control multinational companies. As far as finding loopholes in the law is concerned, the position of a large multinational firm is no different from that of a large domestic firm. Where it differs is in its global character and strength and reach, and hence in its power to ignore any interests except its own.

The headquarters of a multinational company pursues a global interest. It adjusts its normal business operations in order to try to achieve whatever over-riding policy objectives the management may have set. This is not necessarily the maximization of profits. It could be the minimization of exchange risks, the maximization of tax avoidance, the maintenance of high profits at home with which to pay high dividends, or the accumulation of large reserves so as not to have to seek outside finance - to name only a few. But whatever the objective, or mix of objectives, set by headquarters, it takes precedence over the narrower interests of subsidiaries, of the countries in which they are based, and of the consumers of its products in those countries.

Thus, the movement of funds within multinational companies, particularly when several are following the same objective, can threaten and sometimes destroy national policies with regard to currency exchange rates, balance of payments and the availability of credit. Similarly, a multinational company can, by a process of internal costing and accounting, attempt to realize its largest taxable profits in countries with the lowest rates of tax. To the extent that this succeeds, a consequential loss is sustained by consumers whose national Governments require to impose heavier taxes on domestic goods, services and incomes than would otherwise be needed. Although national Governments commonly have legislation to prevent tax avoidance through transfer pricing, the degree of effectiveness is highly questionable and the problems of monitoring clearly immense. The juxtaposition of small nation-States, with a scarcity of resources and know-how, and large multinational enterprises, with very sophisticated back-up and expertise, is particularly poignant for the less developed countries. Here the future gives no cause for comfort. The multinational companies are actually growing at a faster rate than most of the less developed countries, and the possibilities of one weak nation being played off against another are increasing rather than diminishing.

When the International Organization of Consumers' Unions was born, in 1960, its membership came exclusively from the relatively affluent societies of Europe, North America and Australasia. Today, what has sometimes been called the sleeping giant of consumerism has awakened in countries at all stages of development and in every continent of the world. It is therefore appropriate that, as a non-governmental organization in consultative status with the Economic and Social Council, we should have associated ourselves with the over-all aim and programme of the Second United Nations Development Decade and, as a partner in progress, offered a number of suggestions and recommendations from a consumer point of view. This consumer point of view focuses on the standard of living of the ordinary man, woman and child, and not of a privileged minority. It focuses in particular on the emerging or would-be consumer, striving to pass from a bare subsistence agrarian way of life into a wage-earning cash economy. Does it make sense for him if multinational companies transport their entire management structure, production methods and marketing techniques, and superimpose them on a country with a much lower per capita income and very unequal distribution of wealth? Does it make sense for him if, as soon as he has any cash at all, mass advertising, comparable in cost sometimes to his country's entire expenditure on public education, seduces him into buying what the rich buy - packages, and social status, and empty calories, and the royalties charged by foreign firms for the privilege of using their brand names?

It is questions such as these - questions concerning the world-wide influence exerted by multinational companies in shaping and distorting patterns of consumption - that lead one to consider whether, and if so how, the dependence of developing countries may be lessened. How, in a word, alternative channels can be opened up for the import of capital, technology and skills. There can be little doubt that the United Nations, if committed to do so, could play an important role in this process. Indeed, it is already playing a valuable role. The report prepared by the Secretariat envisages a co-operation going beyond the collection and dissemination of information and extending to expertise in the engineering, economic, commercial and legal fields. Out of these constructive measures of international co-operation, we feel that there could develop quite naturally an "international resource agency" through which know-how might be disseminated and embodied in relevant productive processes. This is, of course, not the only alternative that less developed countries may wish to consider and appraise, there are many others; but it is one that falls quite clearly within the purview of the United Nations.

What also falls within its purview is the question of controls. Three and a half years ago, my organization, in a statement submitted by its accredited representative to the 49th session of the Council, proposed that ECOSOC or some other United Nations body should develop appropriate international rules and machinery aimed at protecting consumers, and indeed the whole economy, from abuses in this expanded field of activity. In the best of all possible worlds there would be a supranational organization, with investigative and punitive powers, to promote effective competition and enforce high standards of corporate behaviour. Of course, we do not live in the best of all possible worlds, and the consumer movement recognizes that the highest common factor of agreement will have to do instead, at least for the time being. We hope that this highest common factor of agreement will lead, in particular, to eventual harmonization of product safety requirements, of anti-trust regulations and of taxation of company profits. In the meantime, we are persuaded that a "General Agreement on Multinational Companies", patterned after the General Agreement on Tariffs and Trade and laying down a set of accepted principles, is the least that the world community ought to try to offer by way of moral and practical influence.

Summary of replies to questions *

Question: In relation to the chloramphenicol case, is there a distinction to be made between international marketing and international production, or does that part of your critique apply to any large company engaging in international trade?

Reply: There is an essential distinction. It is clearly within the legitimate power of national Governments to lay down by law requirements that goods may not be exported unless they comply with standards mandatory in the home country. But if one supports, as I do, the Calvo Doctrine, then extra-territorial application of national standards to foreign-based subsidiaries cannot be made mandatory. It is international standards that are needed.

Question: To what extent is it possible to control advertising by multinational companies, either by a tax on advertising or by limiting it as an allowable expense? Should advertising be "tax deductible" only to the extent that it gives factual information?

Reply: Though international guidelines should be laid down, it is for individual countries to decide how they wish to deal with the general phenomenon of advertising--by statutory prohibitions, by tax, or by allowing consumer organizations free space or free time to answer advertising that is not factual. But the quite particular phenomenon of advertising to which I was drawing the Group's attention is that of psychic exploitation: excessive and inappropriate

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* Questions were asked by Messrs. Dunning, Weinberg (consultant), Miller, Komiya and Mansholt.

sales pressures on very poor people to move over to extremely expensive nutrients produced by multinational food and drink companies who are in the less developed countries first and foremost to exploit their brand names.

<u>Question</u>: Is it not competition among less developed countries for the favours of multinational corporations that put the latter in the position, through effective lobbying, of "writing the loopholes into the law"?

<u>Reply</u>: These loopholes are indeed of negative value to the consuming public. They arise either from competition for foreign direct investment, or from lack of expertise in smaller countries. That is why there is great merit in the suggestion made in the Secretariat's report that a corps of multidisciplinary consultants might be available to help if and when wanted. The problems of coping with foreign direct investment, and the terms on which it is let in, are also much easier to deal with on a regional or Common Market basis.

<u>Question</u>: Have not host countries the power and responsibility to determine how consumers should be served within their borders, to impose their own controls and to set the terms and conditions of entry for multinational corporations?

<u>Reply</u>: Nations differ enormously in wealth, resources, capacity and expertise. Of course, consumer pressure groups wherever they exist in less developed countries are spokesmen for stronger legislation and, what is even more difficult to achieve all over the world, its effective enforcement. But to expect often very tiny developing countries, with so many economic and social priorities jostling for position, to provide as elaborate a protective panoply as in rich, developed countries is unrealistic. Hence they require international protection going beyond what their own domestic governments can offer them.

Question: Surely it is not feasible to apply in the importing country consumer protection laws originating in the exporting country, since multinational companies cannot compete under different conditions in the same market?

Reply: This is not what has been suggested. Our argument is simply that a company should not be in a position to take advantage of its multinational power to market goods in another country to lower standards, from the consumer point of view, than those mandatory in its home market.

Question: If the know-how Governments require is possessed otherwise than by multinational companies, cannot the host country negotiate directly with the possessor, and if it is not, under what different circumstances than the present would the multinational sell or part with its know-how?

Reply: We would like to see the opening up of alternative propositions. One alternative, of course, is doing without the product altogether. Another alternative is importing it. A third consists in licensing arrangements. A fourth would be a mixed enterprise. A fifth could be a home-based or a foreign-based development corporation. There is a multitude of possible mechanisms. But I have particularly drawn attention to the desirability of the United Nations itself providing some mechanism, some channel, by which capital, skills and technologies can be transferred without at the same time incurring the social costs and political tensions which seem part and parcel of the activities of a multinational company.

Question: Is not competition restricted or avoided by patents, and would it not be possible for a patent not being used in a developing country but only to protect a market to be forbidden or limited in duration?

Reply: It is quite clear, from the official report of the Patent Law Commission in India and from the studies of Vaitsos in Latin America and Grundmann in Africa, that multinational companies use patents largely to impose restrictive conditions on the operations of their local subsidiaries or simply to preserve the market for themselves by preventing rivals from taking up production. In this way, competition between sellers of technology is being restricted by the patent system.

Question: Could you give us specific examples of multinational companies using their liquid assets to upset the money market or adversely affect exchange rates?

Reply: I would refrain here from singling out specific enterprises. There is nothing intrinsically anti-social about hedging exchange risks and it would be remarkable if multinational companies did not do so. What has given the problem its present far-reaching implications is, first, the sheer size of the funds that can be switched from one currency to another and, second, the adept skills of those who switch them by interpreting economic trends. I have seen the situation compared to Wall Street where all the mutual funds with access to the same information follow the same group of go-go stocks and so exaggerate the upward and downward swings. If their exchange systems are not going to be knocked for a burton whenever multinational companies get the jitters, countries are going to have to clamp down on this activity and this will need international agreement.

Horst HEININGER
Head of Department, Institute for International Politics and Economy
Berlin, German Democratic Republic

Summary of written and oral statement

As stated in my paper, my Government is very much interested in the work and the effort of the Group of Eminent Persons analyzing the impact of multinational corporations on world development. Considering the special significance of the problem and the special intention of the Group, we would like to draw attention primarily to the impact of multinational corporations on the developing countries.

First, I should like to consider multinational corporations and the international division of labour. In the course of the past twenty years, important changes have taken place in the world economy. These pertain to accelerated growth and significant structural changes in production as well as to the expansion of world trade. The common basic trait of these changes is the increasing internationlization of production and, accordingly, the rapid intensification of the international division of labour. When speaking generally about these trends in world economy, some trends within the non-socialist world economy are becoming conspicuous so far as the issues which are being discussed here are concerned.

On the one hand, the increasing internationalization of production and international division of labour clearly takes place primarily between the developed capitalist countries. At the same time, the economic lag of the developing countries has increased, though their economic growth might have been accelerated and their share in world industrial production slightly increased. The share of developing countries in world exports has been decreasing now for many years.

On the other hand, it is known that the implementation of the international division of labour in the non-socialist world economy is, to an increasing degree, connected with the expansion of multinational corporations. The output of so-called international production was estimated at the end of the 1960s to be about $420 billions, the volume of world exports amounting in that period to about $200-240 billions. In the home countries, and through their foreign affiliates, the activities of multinational corporations bring about growth and structural effects in other developed capitalist countries and in developing countries. Although, on the one hand, the investments, output, exports etc. appear as components of the national economy of the country in which the firm is located, they are at the same time the economic measures of a private organized transnational company. In my paper, this process is characterized as dualism in the structure of the non-socialist world economy. It cannot be disregarded, in this context, that the transnational unit is, through common ownership, profit interests, business strategy and global orientation, a uniform organization, while integration into the national economy in question is by no means, and more often than not cannot of necessity be, harmonious.

The developing countries are concerned by these activities of multinational corporations in a special manner. The strategy of these corporations is based on the global business interests of the whole firm and is not oriented to the economic and social interests of developing countries and to the necessity of initiating a new international division of labour between developed capitalist countries and developing countries. On the contrary, the strategy followed by multinational corporations with respect to investments abroad is carried out in the profit interests of the firm as a whole and, normally, through decisions taken by the parent corporation in the home country. That is why multinational corporations are interested in wholly-owned affiliates in foreign countries. Beyond this, the profit drain surpasses new investment (including re-investment) and this development is taking place primarily in United States multinational corporations. In the 1960s, the net capital outflow of United States multinational corporations from all developing countries amounted to about $18 billions. Some of the further results of the negative impact of multinational corporations on developing countries are mentioned on page 7 of my paper.

Second, I should like to take up foreign expansion by multinational corporations, and the role of Governments in the home countries.

The report Multinational Corporations in World Development underlines the importance of effective measures to be taken by host and home countries of multinational corporations. Several proposals are made to counterpact possible pressures on host countries and, to diminish or to avoid negative effects on economic and social development in host countries resulting from the business activities of the multinational corporations.

In this connexion, the special responsibility of the Governments in the home countries, i.e. in the developed capitalist countries, should be underlined.

As noted in my paper, it is indispensable to make a precise study of the role of Governments in the home countries in order to assess the business activities of multinational corporations in developing countries in a satisfactory manner. It is well-known that in the home countries there are measures supporting private foreign investments in the shape of tax preferences, credits, and other forms. Because of their economic strength, the multinational corporations reap the greatest share of the advantages from these promotional measures. Objectively, the Governments thus establish a broader basis for the expansion of multinational corporations. The governmental promotion of these corporations is not operating as a corrective but as an incentive for the global business interests of the transnational companies, disregarding in many cases the vital interests of developing countries.

Therefore, the direct support of new investments in developing countries, the aim of which is to secure resources of raw materials or oil on a private economic basis through a multinational corporation, must raise the question whether this is the right way to avoid conflicts with developing countries with regard to their permanent sovereignty over natural resources. Besides this, some screening and auditing of the operations of multinational corporations and requirements for greater disclosure could promote the accountability of these corporations. The responsibility for this rests primarily with the Governments of those countries in which the majority of multinational corporations are located.

As far as proposals for the further treatment of the issue are concerned, the suggestions and proposals contained in the report of the United Nations Secretariat are of great interest and call for intensive discussion. In this connexion, the German Democratic Republic would like to put forward the following suggestions:

Despite the immense number of publications concerned with the activities of multinational corporations, there are still a number of economic and political interdependencies waiting for clarification. It would be useful to reinforce studies and information pertaining to such problems as: case studies of the economic and political impact of the activities of individual corporations, hearings and studies on the business strategy and practices of multinational corporations (transfer pricing etc.), national sovereignty and the role of "multinationals", the impact of regulations on the part of Governments in the home countries, and the role of these companies in the framework of the increasing internationalization of production and internation division of labour.

We agree completely with the proposal to arrange an international forum on the activities of multinational corporations, and give our full support to the suggestion of having regular discussions on the issue of multinational corporations in the Economic and Social Council. We lend our full support also to the idea that the United Nations Secretariat could serve as an information centre for problems of multinational corporations.

It is very difficult, at present, to undertake more far-reaching steps. We are, however, of the opinion that it is very urgent indeed to meet the demands put forward by the developing countries to retain unlimited sovereig over their natural riches.

Furthermore, we are fully aware of the fact that it is necessary to analyse carefully the other problems treated in the report. Among these problems, the impact of multinational corporations on the working class must be regarded as very important.

Summary of replies to questions *

Question: What is the relationship between multinational corporations and socialist countries?

Reply: As far as multinational corporations are concerned, the German Democratic Republic has no special experiences up to now. Our connexions refer in the first line to trade relations, purchases of licenses and investments on the basis of long-term credits, preferably within the framework of long-term economic treaties and agreements, and not in the form of enterprises with common ownership or participation by multinational corporations in the property of our industrial enterprises.

Question: What alternatives to the multinational corporations can the socialist countries offer the developing world?

Reply: Especially during the last decade, economic relations between socialist and developing countries have been developed on a solid basis. The principles on which this international co-operation is founded, are non-interference in the internal affairs of the States in question, equal rights for all participants, full and permanent sovereignty over natural resources and mutual benefit for the partners. The steady economic growth of the socialist countries which are members of the Council of Mutual Economic Aid and which are developing an international division of labour between their national economies, thus promoting socialist economic integration, is at the same time bringing about new possibilities for increasing economic aid to developing countries.

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* Questions were asked by the Chairman and Messrs. Uri, Somavia, Miller, Schaffner, Mansholt, Dunning, Prebisch (consultant), Estrany y Gendre and Ivanov.

The adoption of the complex-programme by the Council of Mutual Economic Aid in 1971 presents itself as an opportunity also for developing countries to follow a policy of long-term co-operation with the socialist countries and to take part in projects of this programme. Moreover, in the last year a special resolution was adopted by the Council, and a special fund was established by the International Investment Bank to promote investments in developing countries.

With regard to the German Democratic Republic, economic co-operation with developing countries is taking place mainly within the framework of long-term agreements concluded by the Governments of both sides. These agreements include the development of trade, economic, scientific and technical co-operation, as well as special measures of aid in the fields of technology, education, training of specialists, medical services etc. for the developing countries.

The main purpose of these agreements is the common effort to promote a steady economic co-operation oriented to the economic and social needs of the developing countries and taking into account their own planning and development programmes directed to the reinforcement of economic independence. It is just this objective of economic co-operation as well as its long-term character which gives an efficient support to the proper efforts of developing countries.

Moreover, the economic co-operation comprehends measures towards an exchange of technological experience, specialization of production programmes, training of specialists etc., thus promoting an international division of labour which meets the vital interests of developing countries.

As an example, I would like to mention the treaty between the German Democratic Republic and the Egyptian Arab Republic on co-operation in the of the textiles industry. This treaty includes long-term measures such as technical and technological aid, exchange of relevant experiences, co-ordination of technical standards and production programmes etc., bringing about economic co-operation towards a true division of labour for the mutual benefit of both sides.

Question: How can the impact of the multinational corporations be counter-balanced?

Reply: As justly stated in the Report of the United Nations Secretariat, it is necessary to efficient measures to counteract the negative impact of multinational corporations on developing countries. In the first place, this is a question of economic and political decisions by the host countries, exercising their national sovereignty and strengthening their economic independence. The socialist countries lend their full support to these efforts. Moreover, the economic co-operation with socialist countries and the economic aid of the latter to developing countries will not only be continued but even increased in the future, thus supporting the developing countries in their efforts to implement long-term planning and development of an independent economy. This will be an effective contribution towards the efforts of the developing countries to counter-balance the negative impact of multinational corporations on their economic and social welfare. Besides this, the activities of Governments in the home countries of multinational corporations are becoming more and more important for the direction of the expansion and the business practices of these corporations. While the decision-making by the multinational corporations is mainly concentrated in the parent companies, located in the developed capitalist countries, the responsibility of the respective Governments must be underlined. Up till now, the governmental furtherance of multinational corporations has operated as an incentive to private expansion, often contrary to the interests of developing countries. Therefore, this furtherance should be revised, in order to meet the proper interests of developing countries in a satisfactory manner.

J.A.C. HUGILL
Chairman, Industry Co-operative Programme

Summary of written and oral statement

The written submission of the Industry Co-operative Programme (ICP), entitled "Multinational Enterprise and the Developed World", emphasizes that mutual understanding between the leaders of Governments of developing countries and of multinational enterprises is essential to social and economic progress. A major purpose of the ICP, established within FAO, is to facilitate a dialogue between such leaders. The Programme allows direct contact between leaders of Government and industry in a United Nations framework, thus mitigating some of the mutual mistrust which is an obstacle to understanding.

The Programme's origins in 1966 and its composition and activities are described in the paper, including its contacts with other United Nations agencies such as UNIDO, UNDP, the World Bank Group and others. Its membership consists of senior executives from nearly 100 multinational companies from 18 different countries. Its objectives are described, a primary one being to demonstrate that far-sighted and responsible international business can and does contribute to social and economic development by fostering profitable enterprise.

The Programme is unique because: it is a part of the United Nations system; it is oriented solely towards development in the developing countries; it is specialized in agro-allied industry. The Programme's members co-operate in some of the main priority areas of FAO action, such as filling the protein gap, and studies of future development in world commodities.

As a means of co-operation with Governments, the Programme has devised a mechanism known as Country Missions, composed of a small number of members who are high level representatives of their companies, plus a member of the Secretariat. Missions go at the express request of a Government, and are financed from the Programme's budget. They initiate a dialogue, assist in establishing national planning priorities, and promote new activities and projects. They report to the Governments concerned, and their reports are used as a basis for follow-up action by members. Missions have gone to Dahomey, Venezuela, Liberia, Sri Lanka, Brazil and Cameroon.

For the purpose of participation in and contribution to social and economic development, Working Groups of members are mobilized sectorally to explore and develop activities on such technical subjects as: dairy industry development, farm mechanization, fisheries, forestry industries, integrated meat development, pesticides, plastics in agriculture, and protein food development. Special sub-committees of members study major world issues such as industry and the environment, world trade in agricultural commodities, the transfer of know-how and appropriate technology, and the training of personnel.

In the course of its life, the Programme has gained experience which may be useful as an example of how industries' resources can be an effective partner in the development process, has opened up practical areas for co-operation, and has achived credibility within the United Nations system.

The oral presentation by the Chairman of the Industry Co-operative Programme summarized the main points of the written submission, stressing the Programme's uniqueness and the fact that members accept that membership involves the obligation to participate in activities which will be oriented to long-range social and economic goals rather than simply short-run aims restricted to their individual companies.

The Programme is difficult to describe. It is not a sales agency, a trade association, a short-term expedient or a philanthropic charity. It is an attempt to combine ideals - the desire to assist in development, ideas and enterprise - the tackling of projects involving new sources of supply for agricultural world markets, new technology, new markets in developing countries, and protein food development. The needs, the problems, and the advantages of the developing world can only be tackled on a basis of co-operation between Governments, the United Nations agencies and industry, which are interdependent.

The Programme welcomes an objective study of the position of the multinationals. Its members believe that if multinationals were to become the object of general hostility, the whole process of development could be harmed. Industry's job is to produce things for people. Most of the major technological advances have by historical chance come about in the industrial world. These can be transferred where desired to the developing world, and multinational industry, through its international contacts and its wider experience, can do this more readily than it can be done within a purely national framework. As far as many companies are concerned, any attempt to form an action programme by the United Nations will find willing and helpful attitudes.

As far as the suggestions in the Secretariat Report are concerned, a common code of behaviour is an excellent idea but can only be a lowest common denominator. Many companies operate, voluntarily, a "social audit" on their activities. Military intervention by home countries is a thing of the past. Diplomatic intervention cannot be excluded, for constitutional reasons. There are many problems which investors run up against in dealing with host Governments. Following the experience of ICP Missions, we are studying how we could, on a neutral basis, assist Governments in the best use of foreign industrial resources. Governments and industry are both adapting themselves to changing circumstances, and there is growing recognition of interdependence. The harmonization of national measures and the regionalization of activities is to be encouraged. Many multinationals are anxious to help. Investment incentives need further study, as they can be harmful to developing countries by distorting normal procedures. An international forum for the discussion of these and other problems could do good, but duplication is undesirable. A centre for the collection of facts could be of help, but the use of public opinion as a deterrent is of doubtful value. An international code of conduct can only be general. It should apply to national as well as to multinational industry. Any register of multinational corporations should be the kind of list that corporations would be proud to belong to. Those on the list might well set up a voluntary system to study and produce information. A consensus on most points is possible though it cannot be achieved rapidly. No one has a monopoly of wisdom and virtue. We must all help each other, and the Industry Co-operative Programme is prepared to provide support for any institutional activities resulting from the report of the Group of Eminent Persons.

Summary of replies to questions*

Question: No large multinational corporations appear to belong to the Industry Co-operative Programme; is it not merely window-dressing?

Reply: It is sincere. The statements made to you are collective on the part of the individuals representing the companies, and therefore, although not legally binding, are morally compelling. Its rules and regulations are approved by FAO. At least six of the large multinational corporations whose chief executives are appearing at hearings of the Group are members.

Question: Are not the Programme's activities on pesticides motivated by profits? Surely, pesticides, being dangerous, should not be used at all?

Reply: Profits on pesticides are low and many companies find it difficult to earn them. FAO and WHO regard pesticides as essential to food production and the prevention of insect-borne disease. The choice is between starvation and disease now, and possibly, but improbably, death from tertiary effects in three or four generations. Sri Lanka stopped using DDT against Malaria and the incidence of disease rose from 10,000 to 2 1/2 million a year. It has now reintroduced DDT control.

Question: To whom is the Programme responsible in the United Nations system?

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* Mr. Kniep replied to some of the questions.

* Questions were asked by Messrs. Miller, Mansholt, Estrany y Gendre, Weinberg (consultant), Dunning, Schaffner, and Somavia.

Reply: Although it has access to and contacts with other United Nations agencies, it is responsible through Dr. Boerma to the member Governments of FAO.

Question: Does the Programme have any influence with Governments?

Reply: Governments actually request our co-operation through advisory missions and projects. In addition we initiate and organize such activities as pesticides seminars at which Governments are represented. ICP members learn from Governments what they require.

Question: Is the motivation of members profit?

Reply: No. Not only profit. Re-read the statements, where the principles of the Programme and its long-range purposes are described.

Question: What is the Programme doing about restrictive trade practices?

Reply: This is not the business of the Programme. The food industry is not widely involved in such technical issues.

Question: What is the Programme doing about the introduction of intermediate technology, which is much better for the developing countries from an employment point of view than high technology?

Reply: Developing countries vary and the actions of members vary according to circumstances and to the desires of Governments. We introduce the appropriate type of technology. This is the aim of our missions and projects.

Question: Why do you not include representatives of labour in the Programme and on missions?

Reply: As regards the Programme, this is a matter for FAO which keeps links with ILO, which is the proper forum for the discussion of labour matters. As regards missions, we hadn't thought of it. In certain circumstances it could be considered, particularly if other agencies were involved.

Question: How is investment in projects carried out? To what extent is it a form of aid?

Reply: The Programme does not itself invest. It is not organized for this as are ADELA and the Agri-Business Council. But individual members or consortia can and do finance projects arising from the activities of the Programme.

Question: The methods of the Programme seem to offer a pattern the Group of Eminent Persons could recommend, for it is going to be impossible to reach agreement on any system of supranational control. Sovereign States will never accept it, but they can if they wish take advantage of a body like ICP. Co-operation is what is needed, and the dialogues initiated by the ICP seem admirably designed to disperse the distrust which is the heart of the matter. Could the Programme assist in giving ideas for the expansion not only of the concept but also of missions to other fields?

Reply: In principle we shall be delighted to, and will discuss the implications both for the Programme and other United Nations Organizations.

Question: Do not large multinational corporations go into developing countries merely to produce for export? Are they not totally uninterested in feeding the poorer indigenous population?

Reply: No. Food companies actually produce mainly for the local markets. You will hear from Unilever and Nestle shortly, and will discover your statement to be incorrect. Multinationals are adapting themselves all the time, learning from Governments of their needs.

Question: Surely the multinationals, however efficient they may be, are very inefficient at feeding people?

Reply: When it comes to inefficiency, Governments in collective action are sometimes inefficient. Take the example of the International Sugar Agreement which has been torpedoed by the inability of importing and exporting country Governments to agree.

Question: What is the moral attitude of food companies?

Reply: The growth and enthusiasm of the membership of ICP indicates a sense of moral responsibility.

Stephen HYMER
Graduate Faculty, Department of Economics
New School for Social Research

Written Statement*

The report on Multinational Corporations in World Development prepared by the Department of Economic and Social Affairs of the United Nations is not a radical report. It was not intended to be one and it probably would have been wholly unacceptable to you if it were. Still I was surprised to find that it does not contain even a limited discussion of the radical analysis of multinational corporations developed in a now substantial body of writings by Amin, Arrighi, Girvan, Keynes, Kidron, Levitt, Mandel, Murray, O'Connor, Palloix, Papandreou, Rowthorn, Sunkel, Watkins, Wolfe, myself and others.

The starting point of the Secretariat's Report is the dramatic emergence of multinational corporations during the past twenty-five years and the ambivalence felt by nation-States, especially in the Third World, towards these large private institutions. On the one hand, developing countries recognize their dependency on multinational corporations for much needed capital and technology. On the other hand, they fear this dependency and are suspicious of the size and scope of these international giants.

The Report, recognizing this predicament, attempts to analyze the nature of multinational corporations and to suggest ways to minimize abuses while maintaining the flow of private foreign investment. This is

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*Owing to the untimely death of Professor Hymer before this work was completed, his written and oral statements as well as his replies to questions are reproduced in full.

a useful task as far as it goes, for small countries are often disadvantaged in bargaining with large companies and need to have their hands strengthened through international co-operation. But it is a limited approach that does not adequately prepare us for the problems and choices we will have to face in the next decade.

My objection to the Secretariat's approach is not that it is invalid but that it is myopic. The Secretariat accepted the current structure of the world economy as given and concentrated on how life could be made easier within it. It did not analyze this structure itself and confront the problem of dependency in a comprehensive way. Specifically, it did not even raise, let alone attempt to answer, two questions of crucial importance:

(a) Even with the safeguards implied in the policy recommendations of the Secretariat's Report, can a world system based on private multinational capitalism ever achieve the development goals we all desire? It has been suggested that if multinational corporations continue to grow at the present rate, the world's industrial system will be dominated by 400 or 500 giants by the end of the century. Is this system compatible with our hopes for a peaceful and prosperous world?

(b) Are there alternative systems of organizing the world economy which rely much less on private multinational capital and are more promising for reaching these goals?

As you well know, the radicals have argued that the answer to the first question is "no" and to the second question "yes". The radical school has argued that the multinational corporate system concentrates control and power in a few metropolitan centres, leaving the rest of the world as a vast hinterland with a stunted capacity to plan for its future and to fulfil its hopes. It thus maintains and intensifies the system of dependency and misery that now characterizes our world economy and accounts for so much of its difficulties and injustices. To overcome these evils, a system of independent socialist countries is needed in which information and technology flows freely between countries, but capital, i.e. power, does not.

It is one thing to disagree with the radical's answers. It is quite another thing to ignore the questions themselves. It would be a great pity if these broader questions were not raised and aired freely in reports and documents emanating from an institution that represents the world community as a whole.

Keynes, The American Challenge and The New Frontier

The chief defect of this report is that it lacks a historical perspective. Multinational corporations did not grow in a vacuum. They flourished because after the Second World War, the major developed countries led by the United States established a framework for the world economy that encouraged the free flow of goods and private capital between countries on market principles. The world market, which the United Nations Report accepts as a basic premise, is the legacy of this strategy adopted twenty-five years.

A good starting point for this historical approach would be a 1933 article by John Maynard Keynes on "National Self-Sufficiency." In this article, Keynes, describing himself as a man "who in the last resort prefers anything on earth to what the financial reports are wont to call 'the best opinion of Wall Street '" argues that world peace, prosperity and freedom could best be achieved by emphasizing national self-sufficien rather than international market capitalism. In stronger language than almost any other economist would dare use, he came to the following conclusion:

> "I sympathize, therefore, with those who would minimize, rather than with those who would maximize, economic entanglement among nations. Ideas, knowledge, science, hospitality, travel—these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible, and above all, let finance be primarily national."

He supports his case with three basic arguments. First, he n that contrary to the belief of the 19th century free traders, the worl market created in the Golden Age of Pax Brittanica did not ensure peace but ended in war and a depression. In his words:

"To begin with the question of peace. We are pacifist today with so much strength of conviction that, if the economic internationalist could win this point, he would soon recapture our support. But it does not now seem obvious that a great concentration of national effort on the capture of foreign trade, that the penetration of a country's economic structure by the resources and the influence of foreign capitalists, and that a close dependence of our own economic life on the fluctuating economic policies of foreign countries are safeguards and assurances of international peace. It is easier, in the light of experience and foresight, to argue quite the contrary. The protection of a country's existing foreign interests, the capture of new markets, the progress of economic imperialism--these are a scarcely avoidable part of a scheme of things which aims at the maximum of international specialization and at the maximum geographical diffusion of capital wherever its seat of ownership."

Second, he deals with the question of economic efficiency. He argues that the spread of modern technology makes it increasingly easier to produce locally the basic needs of a community and makes the argument for international specialization and export-oriented growth less compelling.

Third, and I think this is the most important part of his case, he argues that the free trader's economic internationalism assumed the whole world was, or would be organized on the basis of private competitive capitalism. In contrast, Keynes felt that we had to go beyond capitalism if the fruits of the industrial revolution were to be realized in a humane and rational way. But a world market would prevent experimentation in socio-economic organization and thus inhibit the free and full development of our potential.

Expressing a view that is not very popular today except among socialists, Keynes argues:

> "The decadent international but individualistic capitalism, in the hands of which we found ourselves after the war, is not a success. It is not intelligent, it is not beautiful, it is not just, it is not virtuous--and it doesn't deliver the goods. In short, we dislike it, and we are beginning to despise it."

> "We each have our own fancy. Not believing that we are saved already, we each should like to have a try at working out our own salvation. We do not wish, therefore, to be at the mercy of world forces working out, or trying to work out, some uniform equilibrium according to the ideal principles, if they can be called such, of <u>laissez-faire</u> capitalism. .... We wish--for the time at least and so long as the present

transitional, experimental phase endures--to be our own masters, and to be as free as we can make ourselves from the interferences of the outside world."

Keynes' view, as expressed in this article, had little effect on the policies which governed the post-Second World War reconstruction and development plans for the world economy. Instead, the best opinion of Wall Street and the City prevailed.

"Let there be no mistake about it," wrote the Economist in 1942 in an article on "The American Challenge," "the policy put forward by the American Administration is revolutionary. It is a genuinely new conception of world order." In this way the Economist, reflecting the policy discussions taking place in London during the war, welcomed the plan to create a post-war world economy based on international capitalism under United States hegemony.

The goal of this plan was "a new frontier, a frontier of limitless expanse, the frontier of human welfare," and "the instrument will be industrial capitalism, operating, broadly speaking, under conditions of private enterprise." (Summer Welles, quoted in The Economist, June 1942) or, as The Economist put it, "the idealism of an international New Deal will have to be implemented by the unrivaled technical achievements of American business. The New Frontier will then become a reality." Or as Fortune expressed it with regard to developing countries, "American imperialism can afford to complete the work the British started; instead of salesmen and planters, its representatives can be brains and bulldozers, technicians and machine tools." (Fortune, May 1942)

The plan to restore the world market was, as we know, highly successful--trade expanded, capital once again began to flow freely between countries, and the multinational corporation emerged as a new form of international organization. This is the background of the situation we now face, and which created the framework within which the Report on multinational corporations was written. But, as noted above, the Report only looks at multinational corporations within this framework and does not examine the framework itself and pose the question Keynes raised as to whether continued growth in this framework is compatible with peace, prosperity and liberty over the next twenty-five years. It is precisely these issues that the radical critics have raised and which I think have to be considered openly and fully, especially in the present context when many of the institutions of the "American challenge" are being restructured after their twenty-five year life cycle and we must again ask whether we want world development to be based on the instrument of "industrial capitalism, operating, broadly speaking, under conditions of private enterpr[illegible]

Multinational Corporations and The Law of Uneven Development

To fully understand the effect of multinational corporations on world development, one must recognize their two-fold nature. At any moment of time, multinational corporations possess ready-made capital, technology, and organizing ability to sell to developing countries. This is what is generally regarded as their positive side. But multinational corporations also work to maintain their advantages through time by centralizing control over the capacity to generate capital and technology. This is their negative side. At the same time as they bring capital and technology to a developing country, multinational corporations help drain that country of its capacity to plan for itself.

This imperialistic tendency of multinational corporations is a geographical reflection of the hierarchical and authoritarian structure of corporate organization. The main divide in the corporation is between capital and labour, between management and operations, between the head and the hand. As Alfred Marshall put it, this method of dividing labour within a firm so that "the planning and arrangement of business, its management and its risks, are borne by one set of people, while the manual work required for it is done by other labour" stands out "for good and evil as the chief fact in the form of modern civilization, the 'kernel' of the modern economic problem."

The modern multinational corporation has an elaborate vertical structure with many levels of intellectual work. The higher up the ladder, the higher are wages and status, the more abstract the level of planning, the longer the time horizons, the greater the scope for discretion and judgment. At bottom one supervises a few people, remains rooted in one spot, and deals with narrow specialties. At the top, the budget runs in tens or hundreds of millions, the time horizon covers decades, and vision covers the world.

The international significance of this stratifying tendency lies in a correspondence principle relating vertical differentiation within the corporate hierarchy to the spatial distribution of employment and earnings. Suppose, following Chandler, we think of the corporation as consisting of three levels dealing with operations, co-ordination and strategy. Location theory suggests operating activities (level III) spread themselves widely over the globe in response to the pull of men, markets, and materials. Co-ordinating activities (level II), because of the need for white-collar workers, communications systems and information, tend to concentrate in large cities. Corporations from different industries tend to place their co-ordinating offices in the same city, since their demands are so similar. Level II activities are consequently far more geographically concentrated than Level III activities.

Level I activities, the general offices, tend to be even more concentrated than Level II activities, for they must be located close to the capital market, the media, and the government. Nearly every major corporation in the United States, for example, must have its general office (or a large proportion of its high level personnel) in or near the city of New York because of the need for direct personal contact at higher levels of decision-making.

On the international level, the centralizing tendencies of multinational capital implies a world hierarchy of cities. High level decision-making will be centralized in a number of capitals -New York, Tokyo, London, Frankfurt, Paris, forming an inner ring between roughly the 40th and 50th parallel. These, along with Moscow and Peking, will be the major centres or radial points of strategic planning.

Lesser cities throughout the world will deal with the day-to-day operations of specific local problems. These in turn will be arranged in a hierarchical fashion: the larger and more important ones will contain regional corporate headquarters, while the smaller ones will be confined to lower level manufacturing activities.

This system implies a continuous dichotomy between major and minor centres - the former continously innovating and dispersing actively to surrounding areas, the latter having continously to adjust. The brain drain, the international demonstration effect, the instability of the hinterland, are manifestations of this relationship.

The new international economy will be characterized by a division of labour based on nationality. Even within the United States, ethnic homogeneity increases as one goes up the corporate hierarchy; the lower levels contain a wide variety of nationalities, the higher levels become successively more pure. A similar phenomenon will probably develop on a world scale as firms try to balance the need for adaptation to local customs and circumstances with a centralized strategic point of view.

Day-to-day management in each country is left to the nationals of that country who, being intimately familiar with local conditions and practices, are able to deal with local problems and local government. These nationals remain rooted in one spot, while above them is a layer of people who move around from country to country, as bees among flowers, transmitting information from one subsidiary to another and from the lower levels to the general office at the apex of the corporate structure. In the nature of things, these people for the most part will be citizens of North Atlantic countries (and will be drawn from a small culturally homogeneous group within the advanced world), since they will need to have the confidence of their superiors and be able to move easily in the higher management circles. Latin Americans, Asians and Africans will at best be able to aspire to a management position in the intermediate co-ordinating centres at the continental level. Very few will be able to get much higher than this, for the closer one gets to the top, the more important is "a common cultural heritage." The majority will be little more than middlemen helping to organize their countries' labour for sale abroad.

The multinational corporate system thus does not seem to offer the world national independence or equality. Instead it would keep many countries as branch plant countries, not only with reference to their economic functions but throughout the whole gamut of social, political and cultural roles. The subsidiaries of multinational corporations in the country of operations, and their top executives play an influential role in the political, social and cultural life of the host country. Yet these people, whatever their title, occupy at best a medium position in the corporate structure and are restricted in authority and horizons to a lower level of decision making. The Governments with whom they deal tend to take on the same middle management outlook, since this is the only range of information and ideas to which they are exposed. In this sense, one can hardly expect such a country to bring forth the creative imagination needed to apply science and technology to the problems of degrading poverty.

Policies and Strategies

The multinational corporation is a capitalist organization which organizes one industry across many countries. The continued expansion of this form of international industrial organization creates, in my view, a hierarchical structure of uneven development in the world economy that does not satisfy the hopes and desires of the world's population and is fraught with contradictions that will become acute as time goes by.

The chief evil of the multinational corporation is that it separates the head from the hand and creates an international division of labour characterized by domination and subordination rather than co-operation. The appropriate strategy for developing countries is to struggle against this domination and to develop their own capacity to plan within their own country and under their own control. This means a policy of greater national self-reliance aimed at removing misery, rather than a policy of creating cheap labour to attract foreign capital.

In my view the Secretariat's Report is highly inappropriate to this task since it does not raise the question of alternatives and counter strategies but seeks merely to reconcile conflicts within a system of continued expansion of multinational corporations.

I hope that this memorandum can convince you to take another look at the broader issues involved in the expansion of multinational corporations, I agree with the Secretariat that these issues should be dealt with at the level of fact and reason rather than myth and emotion. I believe it is possible to do this through scientific investigation. I do not see how it can be done by simply ignoring the questions raised by Keynes and the radicals.

I am a socialist, and I believe we must go beyond capitalism in order to use the fruits of modern science in a humane and universal way. On a scientific level, I therefore look at the multinational corporation critically and search for alternatives openly. It seems to me that a United Nations report on international business should also have a socialist perspective.

Oral Statement Before the Group of Eminent Persons at Geneva on 6 November, 1973

It is an honour to be able to address you, although I must confess that I am not exactly sure what I can say that might be of any use to you. When I first received the letter from Mr. de Seynes asking me to appear and to talk about multinational corporations, their impact on development, their implications for international relations, possible alternatives and the appropriate international actions, I thought that I might add something that could interest you. But when I received the Secretariat Report, which I took to be a preliminary or preparatory report for this Conference, I found it very difficult because I felt that the report did not go sufficiently into depth on these questions and, in particular, it did not take a radical approach, with which Professor Uri has correctly identified me, of simply going to the roots of the matter. I thought it would be presumptous for me to try and write the missing pages, though I was somewhat tempted, and if I had known that I would be surrounded by these murals, I might have had the courage to try. Instead I adopted a simpler approach, which was to try and give some kind of evidence that would at least make it credible to you that this more radical approach was a legitimate one and was absolutely necessary. I did this by choosing to quote at great length from John Meynard Keynes, who was the greatest economist of the twentieth century and who certainly was very respectable, although he was a radical in the sense that he did go to the roots of the problem, at least in this particular essay, where he examined the question of the desirability of re-establishing a world market after its breakdown as a result of the First World War and the great depression and, as you know from reading the paper, he came to the conclusion that the establishment of a world market would not be conducive to peace, prosperity and liberty, and that rather he advocated a system of much greater national self-sufficiency where, as he put it, "ideas, knowledge, science, hospitality, travel -- these are the things which should because of their nature be international, but let goods be homespun wherever it is reasonably and conveniently possible, and above all let finance be primarily national".

As you know, the views that Keynes expressed in this article in 1933 were not accepted in the post-war reconstruction and development plans that were formulated in the late 1940s under the United States leadership, and very different attitudes worked best towards the desirability of establishing multilateral trade and free capital movements. I should like to trace the three levels of analysis that persisted in this period and show where I placed the type of analysis that is found in the Secretariat's report.

The first level of analysis is a foreign investor which prevailed during the 1940s and most of the1950s and early 1960s and which viewed international capital -- at that time the words "multinational corporations" had not been invented -- as a powerful engine for promoting matrial prosperity and development. It was seen as an instrument that could do for the world what it had done for the United States, that is something that looked much more desirable then than it might look now in 1973. Most of the reports were concerned with measures to encourage the flow of capital between countries, and very seldom was there any critical view of foreign investment made.

Now the second level, which emerged in the mid-1960s and which I think was first expressed, at least in a couple of documents, in the Watkins report in Canada, in one writing of which I participated, began to introduce certain types of criticism of foreign investment and multinational corporations in particular. Basically, there were two pints of criticism made with the foundation of the Watkins report. One was the fact that multinational corporations were large and oligopolistic and therefore would not necessarily bring about the efficiency that competitive industry was to bring about, and that certain actions would be necessary by Governments of home and host countries and by international corporations to regulate the competitive nature of these international corporations — a sort of internatinnal antitrust policy. A second trend in that report was to stress the issue of national autonomy and how it might be threatened by having very high levels of foreign investment. Both of these criticisms lead to the argument that most Governments needed certain institutions for screening and surveying multinational corporations to prevent abuses of their power or unwarranted intrusions into national culture and autonomy, but basically the report accepted the fact that a continued flow of foreign investment was necessary and inevitable.

Now it seems to me that the Secretariat's report is very, very much like the Watkins report in its essential view of the multinational corporations and in its recommendations. But since then some people have gone beyond or moved deeper, I would say, into studying the multinational corporations, including Professor Watkins himself, and have begun to look at multinational corporations from a different perspective, a more radical perspective and a more socialist perspective. The main point was that a study of the actual structure of corporations themselves, an analysis of the corporate structure, indicates that basically these large business organizations are organized along authoritarian hierarchical lines, with a vertical division of labour between mental and manual labour, in which the people at the top got the high salaries and a great deal of scope for intellectual and creative work, whereas the people at the bottom did the arduous tasks and had little intellectual activity. Given this structure of the corporation, the new structure of the corporation relates to the question of multinational corporations in so far as there is a spatial dimension to this vertical hierarchy. In my paper I try to give some other reasons, but they are expanded at greater length elsewhere — a location theory indicating that what the corporate system tends to do is to concentrate the higher levels of activities in the corporation in a few metropolitan centres of the world and to disperse the lower levels to the rest of the world, thus creating the dichotomy between these advanced metropolitan centres and a vast hinterland of branch plant economies and stunted capacity for growth.

It is my view that a continued expansion of multinational corporations at the world level would result in organizing an international division of labour along these lines, dividing the world into areas where higher level functions are maintained and much larger areas in terms of population where only lower levels of functions are maintained. Now I think that this kind of structure, if allowed to develop, is not conducive to peace, because of the great tensions and strains and contradictions introduced between the various levels of activities which take place in different countries as well as conflicts between the major centres of power.

Secondly, I do not think it is conducive to prosperity because it confines a great deal of the world to merely doing the low-level activities at low levels of remuneration.

Thirdly, I do not think it is conducive to freedom because the countries which are assigned the task of cheap labour manufacturing sectors do not have the capacity to plan their own future consistent with their own goals and are not free in that sense.

I cannot go into too much detail over this argument because as I said before, this kind of argument was not touched at all on the report, so I can only sketch it here, and I can understand how many people might disagree with the predictions that I make, that such an international division of labour and concentration of power in a few metropolitan centres might not come about. The answer I give may be wrong but I feel it is very necessary to at least post this question, and that the United Nations in particular has a responsibility to examine it in the fullest detail and to see whether or not this is the kind of bleak future that a continued expansion of the multinational corporate system would bring about, and what alternatives are possible if in fact this is the future.

I cannot go to the level of policy because this is something that I think could only be addressed to Governments which actually have the power to enforce policies. But what I do think would be appropriate for a United Nations body is to at least undertake the research that is necessary to pose these questions correctly and to open them up for discussion so that the sovereign nations can see and decide for themselves.

And I should like to suggest two kinds of research projects which I think should be done and which I did not see implied in any way in the Secretariat's report as it now exists. The first is to attempt to project the multinational corporate system into the future, to assume that international capital will continue to flow, let us say, at the rate that it has been flowing over the last 15 years, which is an expansion of about 10 per cent a year, and to see what this implies for the employment structure of the world as a whole; that is, to apply the location theory and to see to what extent this will spread industry to the developing or under-developed countries, and to what extent it will concentrate the higher level activities in metropolitan centres. In other words, I think we should have a projection, showing what an international economy would look like with the multinational corporate system, and showing for the various regions and the various nationalities the types of work that will be available and the types of income that will be available.

I happen to think that such a study would show that the multinational corporate system does not offer a promising alternative. If we take one example that comes clearly to mind, the case of Puerto Rico, which had the most favourable circumstances for receiving foreign capital and being integrated into the multinational corporate system, and which for a period of 15 to 20 years has had a growth of industry that I think is something like 10 or 15 per cent a year, and yet, despite that very, very high rate of growth of industry — which it could obtain because of very, very favourable terms on which it was integrated into the United States economy — employment did not rise at all in absolute terms. It had the same level of employment at the end of the period as before. Unemployment remains at the same level also, 15 to 20 per cent, and half the population of Puerto Rico has left and gone to the United States.

If we take such an example, and we imagine that a large country like India has the same favourable flow of foreign investment as Puerto Rico did, we can see that it would hardly make a dent in India's problems, and, of course, India could not possibly send half of its population to the United States and the advanced countries — so that would be left out.

I think also that the United Nations reports which have attempted to project development policies to the end of the century, even under the assumption that the target of a 6 or 7 per cent rate of growth is met, show that with the best circumstances possible by the end of the century we shall have more misery in the world in absolute terms than we have now. I say, and this is perhaps only my view, that a projection of multinational corporations will show this, but I think we can all agree that this is something that can be subjected to empirical and scientific analysis, and what I should like to suggest is that is should be so subjected, so that we can deal with this question of the multinational corporations on the basis of fact.

The second level of research has to do with the question of alternatives. What I should like to see is a study made in which the goals for the developing countries are changed, and the goal does not become development, a very ill-defined policy which in fact over the last 25 years has meant integration into the world economy, but rather the removal of misery. We talk, maybe not of developing countries or underdeveloped countries, or less developed countries, but of the miserable sectors in the world population. And I think we could start off, and I think that even in this room we would have no trouble in agreeing this afternoon on, let us say, 15 or 16 goals which could remove this misery by , let us say, the end of the centruy. We would all agree, for example, that penicillin would have to be made available on a very wide-scale basis so that everybody in the world should have access to this and other necessary drugs. We would also have ideas on minimum standards of food, clothing, housing and communications which we agree would give everybody a basic standard of living and get them out of the sea of misery.

Suppose we had some bundle, as I say, of 15 or 16 targets such as these to remove misery, we could then have a study to see whether or not it was feasible to achieve such a plan by the end of this century and what role the multinational corporations would play in this. My prediction is that it would be feasible to do it, and that multinational corporations would not play a large role because the technology that is necessary to remove misery is the technology of producing basic goods, and the multinational corporation's strength does not lie in basic goods for minimum standards of living, but rather lies usually in very highly advanced products for the consumption of the middle class and the upper middle class: automobiles, for example, with annual model changeovers, rather than very simple transportation vehicles. The technology that is needed for the basic goods is either a well-known technology that any student in anengineering school would learn, or else it is something that scientists could develop but do not develop now because, if they are tied in with multinational corporations, the interest tends to be in very elaborate goods, like open-heart surgery, to take an example, rather than simple preventative medicine.

Secondly, if we go for basic goods, and we take some example like shoes, and merely accept as a target for a country with a large poor population that we are going to provide one or two pairs of shoes per year for everybody, this would result in large mass production, because the amonnts involved would be very great, and this would allow very large production runs. And for these large production runs, special machinery and production techniques could be developed by the engineering knowledge we have now, which could utilize the unskilled labour that exists in those countries themselves. Therefore, it would be economically feasible to solve this problem of misery because when we concentrate on a few basic targets, we get all the advantages of large production runs which would enable us to use the resources that are available in the under-developed countries instead of highly capital-intensive methods that are used in the advanced countries which produce the more elaborate consumer goods.

Again, I cannot say with certainty that the results would show that, if we took such a bundle of goods, and we applied an input-output analysis, and we took account of the possibilities of technological innovation by getting scientists and technicians from the advanced world to help on it, we would in fact be able to remove misery by the end of the century. It is my guess that we could. But the important issue is that it is a question that is capable of scientific and empirical analysis. Such a study could be undertaken with the best knowledge available to the United Nations, and we could at least come up with a report which other people could look at and object to or confirm on the basis of reason and science.

It seems to me essential to do this, and it also seems to me that the multinational corporations and reliance on foreign capital does not give us such a report or such a knowledge of what are the possibilities of attacking misery. Rather, the multinational corporation and the system that is envisaged in this report gives us the possibility of spreading industry at a fairly rapid rate to the under-developed countries to take advantage of cheap labour, as Professor Adam has pointed out in numerous articles and repeated here today. But we know that that process of industrialization which he talks about, based on cheap labour, is one which is accompanied by a great increase in misery not a decrease. A certain group, a small element of the population -- perhaps 5 or 10 per cent -- who become employed in the modern sector have their standard of living improved. But the rural areas deteriorate and the city fills up with large numbers of people who are under-employed and live in a very deprived state. The income distribution figures for all countries that I know of which follow such a path show that, at the very least, the top one-third of the population get two-thirds of the total income -- and that is a modest figure; it is really much closer to the top 20 per cent of the population getting 70 or 80 per cent. But keeping at the one-third/two-thirds figure, this means that in those countries two-thirds of the population get only one-third of the income and therefore live in misery. And I suggest that that is the result of the strategy of development, and that what we want instead is a strategy for the removal of misery and that the strategy of the removal of misery is not only not brought about by multinational corporations but is quite inconsistent with the multinational corporate system based on a world market and the protection of international private property.

Replies to questions*

Question: We agree more or less that there is a correlation between the presence of multinationals and the rate of growth. Is there also a correlation between the presence of multinational corporations and the increase of inequalities? Is the solution to eliminate the multinational corporations, or are there precise ways and inducements so that the benefits of increased production can be spread more broadly over the entire population of the developing countries?

Reply: I would be the last person in the world to deny the capacity of capitalism in multinational corporations to produce growth. They certainly have done so in the last 25 years and I think that they would continue to do so over the next 25 years. After all we have two hundred years' experience demonstrating that they can produce growth, and as Professor Penrose pointed out, all Marxists know that it is in the nature of capitalism to produce growth. That is not the question. The question is the direction of growth: where we are going.

Now, the tradition of Keynes rests in a long tradition of political economy. From the very beginning, the classical political economists were always concerned with the fact that despite this growth there was a great deal of misery, and, as you know, economics was called the dismal science for a long time, precisely because of this phenomenon of a great deal of misery, alongside of growth, in the late eighteenth and nineteenth centuries. A great deal of that misery has been reduced in the developed world. But if we look at the world as a whole, I think the same fraction of the population or even greater is in misery, and as I tried to point out, this misery can be shown to be a necessary accompaniment of the kind of growth that capitalism induces.

What Keynes was interested in, not only in this article but in a whole series of other articles, was also what kind of affluence this growth produces. He, of course, was very dissatisfied, as he said, that "capitalism is not intelligent, virtuous, just or beautiful." This is something that he repeated over and over again in other articles as well. In the last five or ten years, it has become an increasing concern in all the advanced countries as to what the limits of this growth are in providing for some kind of decent life.

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*Questions were asked by the Chairman and Messrs. Dunning, Mansholt, Miller, Ivanov, Komiya and Somavia.

I have the advantage perhaps over some people in this room of living in New York where one can see the highest stage of capitalism, the highest stage of metropolitan concentration and headquarters, and anybody who has visited there recently can tell you about the wonderful beauties of this very highly advanced growth which make it impossible to walk in the streets by day, let alone by night. And the same concerns with ecology, etc., are emerging throughout the world.

Now, the issue is technology. It is because capitalism, whether deliberately or not, has produced a fantastic technology that it raises the possibility of another kind of growth. It is only because of the success of capitalism in producing growth that we can even ask the question now, "Are there other possibilities?" Therefore, my chief concern is what use is made of the science and technology that we have now. There have been some implications in some of the discussion this morning that the fact that there will be a switch in the future from direct capital flows to licensing agreements, participation, etc., somehow diminishes the role of the multinational corporate system and somehow negates the thesis or the horror story that I project. I do not think that is true at all. I think it is precisely the control of technology without using the vehicle of actual capital movements that can continue to maintain the problem that I identified, that is, the concentration of high technology and higher levels of activities in a few centres, draining away this ability from the rest of the world and at the same time diverting the use of this high technology away from the goals of satisfying the community's needs.

I wish I had here a copy of the paper delivered by Daniel Parker, who is President of the Parker Pen Company, who discussed what he saw as his plan for the future of the world. He said that the world, in order to get mass production, has to be organized on one of two lines: either through some kind of socialist planning or else by the multinational corporation. But he said that a lot of people in the world do not appreciate the values of the multinational corporation and that political work is necessary in order to make them appreciate it. And he said to do this that there were two things: one was the spread of education, because he said he had found from his experience that educated people were more in favour of the multinational corporation than uneducated people.

Secondly, he said that what was required was the building of capital infrastructure in the developing countries, by which he meant precisely this reliance -- this greater reliance -- on technical agreements. And he illustrated that by using a Parker pen. He said that the Parker pen consists of two parts. He said: "There is this part that you write with. That part, anybody can make and Parker pen in the United States does not bother to manufacture it. They subcontract that and have other people make that." And he said that he would love in the developing countries for them to develop private businesses which could manufacture that. But there is another part of the pen which is the clip with the arrow on it. "Now," he said, "that is a different story altogether. That is so important that a lot of people in Southeast Asia buy just the top so that they can wear it this way and just see the clip". "Now", he said, "this part we never give partnerships on; but this we give partnerships on. And the people who manufacture that would be our most important supporters in these developing countries. They would be the buffer which would remind their own countries of the great privileges and advantages".

Mr. Weinberg will tell you that this is a very important problem in industry because in a wider sense, of course, the large multinational corporation when it produces will be unionized. And if it is unionized, it will demand high wages. And so, what they will do is that they will subcontract to smaller firms -- local firms -- which will pay lower wages and which will be able to get away with working conditions that the large corporation cannot get away with. So what you will get is the international division of labour organized through the brain of the multinational corporation while the ownership of the plant is dispersed. And this is the kind of thing that has been talked about in business literature. So I do not rely in my paper or in my thinking on the flow of capital itself, but rather on the concentration of information flows which are crucial.

When I come to this, the thing that bothers me is the question of political power, and I should like to come to something which Mrs. Penrose mentioned. First of all, what I am worried about the under-developed countries doing is focussing their strategy on development instead of on the removal of misery, and although you may be able to deal with the tax concession problem by some kind of measure such as you have imagined, tax concessions are not the only way in which you attract industry. You attract industry by providing it with infrastructure -- electricity, roads, facilities, etc. -- and cheap labour. This becomes a deliberate policy on the part of many under-developed countries to provide cheap labour -- often cheap women's labour -- for the multinational corporations. You can go around the world and you can see places where this is done, where the ports are established for the company. The taxation problem could be solved one way or the other -- they could get the tax or not get the tax. But this is a tremendously important incentive..

An under-developed country which concentrates on providing that in order to increase employment is not at the same time, I think, meeting the needs of development in that country. And there is not much it can do because it itself lacks the technological resources, because of this concentration taking place on the world level, to satisfy its own problems.

Now, the question of the power of the home countries. It is true that, in the past, the most important way in which multinational corporations have been able to operate is by appealing to the power of the home country. And of course the United States has been one of the main targets of criticism for supporting its own companies. But the multinational corporate system is, I think, moving away from the use of just its home country to support its views and moving more towards international institutions to do this. And here is where I see a really serious problem which directly concerns the United Nations.

I think that if one studied the recent experience of Chile or any country which has tried to formulate a strategy which does not rely on foreign investment, you will find that the role played by institutions such as the International Monetary Fund and the World Bank in not supporting that country, in not giving it grants, is very, very important in accounting for its difficulties. Even the United Nations Secretariat is not helping development, precisely because it does not formulate technical expertise and plans to help countries which want to take this path, but rather concentrates on development strategies which presuppose the existence of foreign investment, which presuppose that you can get the technology from outside. For example, the Food and Agriculture Organization now allows plans to originate from outside sources; business consultants in agri-business can originate plans and suggestions to the FAO to be placed into countries. And, in this way, these institutions -- these international institutions -- can become a very powerful organization which is biased towards promoting development strategies in under-developed countries relying on foreign investment and biased against independent plans which would provide a socialist alternative in those countries.

Now that, I think, is an illegitimate and highly undesirable role for a United Nations Organization to plan. I understand why the United States Government or United States aid assumes as a first premise that foreign investment is necessary. But for the United Nations Organization to do this, I think, would be highly undesirable, and my fear in reading that Report was that it sounded much too much like the report of an organization which assumes foreign investment and which did not have any section in it on how to nationalize, or any section in it on what kind of advice the United Nations would give if it ever happened again that a Government like Allende's was elected freely and wanted to put in certain policies. What kind of advice would the United Nations give it, except that it ought to accept foreign capital?

Question: How far can your analysis of location theory and the hierarchy of organizations be specifically related to developments in the multinational company? May there not be greater hierarchies which emerge within countries than between countries? How far do you think multinationals could be made to advance the kind of world economic system you have in mind?

Reply: I am very glad that Professor Dunning raised the point on the hierarchies within countries as well as between countries, because I think that they are also very important and I would like to see policies which reduce those hierarchies as well. I am not sure whether over the next 10 years the multinational corporations will tend to aggravate the tendency within countries or to ameliorate it. That is why I thought this was the kind of question that can be subjected to research. Although I have speculated from time to time as to what I thought was happening, I really wanted to see this done empirically so that we have some idea of what is actually happening and going to happen and make our policy decisions on that basis. I want to say that I think I am a reasonable man and if it did not appear so from my paper, it is because I think what is happening to the world is not very reasonable or rational; it is not me that is unreasonable.

You ask, can the multinational corporations be made to advance the world? I do not expect to be alive for more than 30 or 40 years; I expect IBM still to be a very dominant corporation in the field of international communications and I have even bought shares for my children in IBM and in Japan. The world is not going to change that fast and there are many multinational corporations that have organizations which have to be used. They do possess the technology. But they do not possess all the technology in the world, and that is what I am talking about. It is a question of emphasis. That is why I went back to Keynes and the decisions in the early 1940s, because I want to stress that, historically, there are broad issues upon which Governments do make decisions as to the tendency and the direction in which we are going to go, and that the decision after the Second World War to restore the international market on the basis of the multilateral free exchange of goods and free flow of capital was a decision taken by Governments and enforced by the power of Governments. This history is now very well documented and we could spend time on it. It was not inevitable that this should be the way the world developed.

And now we happen to be in the early 1970s, at a time in which this system is in a crisis. How deep this crisis is we do not know. It may be just a mild thing. But it is certainly a restructuring period in which most of the institutions create needs, and this period is being rethought and reformulated to meet the next period. Some people think that a very serious crisis is in the making. I am not talking now of Marxists, who are always predicting a crisis, but the business press itself. The reading of the last few days indicates concern about this world-wide inflation, this shortage of goods and the possibilities of a major depression in the next few years because of this overextension of the world market and the decline in the effectiveness of various policy instruments, and what I think is the most important thing of all, a growing labour problem that is occurring in all countries of the world. There is a crisis and it is again a period in which everything is being rethought.

My example of Parker Pen -- I know it is a funny example and I know that Parker pens are not very important to development plans. Unfortunatel the Chinese have put out a Parker pen that sells for 40 cents in Tehran and 30 cents in Singapore, which is a perfect imitation of the Parker pen So the Parker pen problem can be solved. Mr. Parker -- he later became an official of the Government -- was talking of a strategy, and in the large business corporations they are thinking of the kind of strategy and broad policies of structure for the world economy. And this is where the United Nations comes in.

The question I am asking is this: is the International Monetary Fund, the World Bank, the United Nations Secretariat, the Food and Agriculture Organization, going to simply say, "Well, of course, we have large corporations with technology and free markets and everything like that, let us work within the system and let us ease the pain a little bit by having these kinds of measures which make it easier for us to survive" Or are they also going to think about alternative strategies, alternative directions, directions which formulate technology and make it available for national planning and community planning, using the multinational corporation, naturally, but not placing the primary reliance on it. Or, are they just going to go along with the system which assumes that the international law of private property and the predominance of the large corporations are going to be the assumed structure.

I think there is a lot of pressure, a lot of thinking in the business world. One has only to read Fortune magazine to see how conscious businessmen are of the need to try and formulate a world structure now which promotes the growth of world business, as they put it. I think the other side, as I say, the socialist perspective, should also be heard and at least subjected to open debate. It was in that line that I suggested some research topics.

I personally do not believe either of these two research topics will be studied, and certainly not by the United Nations, because they are too obvious. They should have been done years ago. I have suggested them in a number of places. I never heard anyone say that they are not very simple and feasible projects to do, but I do not think they will be done. Whereas, I can think of many, many studies, which are more in the nature of what multinational corporations want for these strategies, which are being done.

And I have had quite a bit of experience. I have worked at Yale at the Economic Growth Centre, where I was part of large-scale projects and studies. I know what their biases are. At the International Labour Organization, there is a large study of world employment, but there is no study along the lines that I have mentioned. I think there is something starting on this question of basic goods and needs. But, as I say, I do not think they will be done. That is the kind of bias that I meant.

If there is a switch in emphasis, then, of course, the multinational corporations will play a very important role. It is impossible to imagine not using the existing structure. We have a capacity to make history, but we do not make it out of whole cloth. We use the past to help us into the future. The only thing I am saying is that we have to think somewhat of where we want to go.

Question: In view of what appears to be the present dispersal of United States corporate offices, could you explain your theory of the world hierarchy of cities?

Reply: In discussing the location theory and the hierarchy of cities, I was of course talking of broad, general trends for which I think there is a great deal of empirical support and of which more studies could be made to establish whether it is correct or not. Perhaps I was a little bit too influenced by a New Yorker's view that everything is happening in New York. But I am not sure that Mr. Miller is right about this flight outside of New York either. There is a great deal of debate on the subject in the literature. Some corporations are moving out; others are moving in. I find it hard to believe that Standard Oil will really be run from Houston and not from New York. Their building in New York is pretty big. And I think you referred to the Bank of America; I think it has been taken over by New York. The present Chairman of the Board is with the Council for Foreign Relations, and that is where they are running from.

One of the important points about the centralization theory is that each time you get a horizontal expansion of the size of the comp[any] you build another layer on top. And then when you build that other layer on top, you centralize the layer that used to be the main one. And so a lot of the so-called flow out of New York is decentralizing things that are no longer key, while at the same time higher levels are centralized. But I believe it is true that the Chairman of the Board -- and I am not sure about the President -- is in New York City and operates there, and you cannot operate financially without being in New York. Another thing, of course, is that people are moving to the West in order to be in on the Pacific market.

But in any case I think that an over-all study on a world basis wo[uld] show these kinds of tendencies towards concentration, by and large. If you look at the plan for Greater New York over ten years, there is a pl[an] to get rid of its present problems and to convert it much more into a corporate headquarters. And there is a great deal of discussion of what has to be done to arrive at this. I have also been told -- and this is something that this Group can investigate if it wants -- that there is a fairly large-scale study under way to make Paris an international capital and to be able to grant international citizenship in preparation for the multinational corporate world of the future. I was told this by somebody who worked on the plan and who said: "Your speculation in your paper is true; you know that, in fact, people are planning it."

Again, I have often talked to corporate executives and to planners who thought that the hierarchy of cities was in fact taking place and got into long discussions as to which cities would play which role. So the forward-looking people, I think, do recognize this hierarchy of cities as a very important fact. But it is something that can be subjected to factual analysis, and that is all I am asking for at the moment.

Question: Up till now, development policy in the world has been a complete failure. Development is of course a question of economic relations between a rich part of the world and a poor part. The MNCs are responsible for the main flow of capital from the rich part to the poor: can they be guided and directed towards closing the gap?

Reply: I was very interested that Mr. Mansholt brought up what I wanted to express in my paper as a central issue that was ignored, namely, that we have to study the limits of the multinational corporation. The specific reference of this thing is in reference to the problem of development and we have to make an analysis to get some perspective of what are the limits of relying on this institution. At the same time, I thought that there should be another analysis of what are the possibilities of other institutions and then, between that, there is room for much discussion of all the various types of plans that you mentioned for external control, internal control, national planning.

But it is precisely this issue which I think is crucial and which is too easily overlooked, perhaps for the reasons that Mr. de Seynes mentioned, that you cannot mention the things that you said or the things that I have been suggesting without getting too close to certain political issues which perhaps is very difficult to raise in a United Nations document. Now, it has always seemed to me in reading the documents that one of the reasons why you cannot mention it is because you try for a central point of view; and if you have a central point of view it has to be acceptable to nearly everybody. Therefore, the closer you get to what is actually the status quo and the closer you get to short-term problems and a narrow view, the easier it is not to upset anybody. But you could have, in this report -- after all there are, I believe, some countries in the United Nations that are socialist; there is a variety of different socialisms: some of them are developed, others are under-developed, and they are socialists -- I would hope at least one section which says: this is the radical socialist perspective. It is all wrong, we know, but we are presenting it in order to get representation.

I told you I was reasonable; that is all I am asking for. When you say in the report, as you do, "some people say it is an agent of imperialism", which sounds as if you are confronting the view, but then never discuss what is their argument, except, of course, that anybody who says that it is an agent of imperialism is probably not worth listening to, it is not terribly serious. But there is no section in the report entitled: "The multinational corporation as an agent of imperialism; the for and the against", or something like that to get the kind of balance you want.

Similarly, that is why I know that you are going to move towards looking at social indicators. You have to look at social indicators, because you have to recognize that the development strategies are not working, that the development plan did not work, that misery is increasing.

Some people say that is because of over-population -- in other words, people are the problem. That is the view. Capital is all right. It is just that people are the problem. So we somehow have to get rid of some of the people in order for capital to function. "Over-population" is just another way of saying that capital is not a solution to the needs of the people, because the people are the people, and that's us. And that's where we start from.

Question: Not only the trade or commercial decisions but also the social decisions are being taken outside the developing countries, which makes the selection of an alternative much more difficult. Could you comment on this aspect of the activity of multinational corporations in developing countries?

Reply: Now, Mr. Ivanov asked if there is anything that can be said about strategies for development not following the market-economy line for underdeveloped countries. This is too broad a subject to go into right here, but I have given a list of people who would work at specifically on the question of multinational corporations and development, and I could give you a much longer list of lots of people who worked in the developing countries and who thought a lot about this problem and have thought about the problems of their development, about regional development, about community development, about non-market organizations, and have done studies on this. There is a whole body of research. Now, that body of research is usually not supported by the established institutions -- in the United States anyway; I do not know what is happening in Europe -- including some of the international organizations in New York, which, again, do not, I believe, support it. But there are people who work on this subject. It is possible to have conferences; it is possible to subject it to serious analysis and discussion. And what I was pleading for was that these voices also be heard.

Question: Rapid change in Japan has not been accompanied by increasing industrial concentration. In the United States for the past fifty years or so the degree of concentration has been more or less stable. How do you explain this, and what is the basis of your projection of steadily increasing concentration of decision-making power in a few corporations?

Reply: Now, coming to Professor Komiya, you say that the concentration has not increased in the last 50 years in the United States. I am not sure whether that figure is correct. First of all, I think since the war there has been a large increase in concentration. But, aside from the factual thing, the question is what measure of concentration you use. The usual traditional measure is to take the share of firms in a particular industry. That is fairly stable over time. But the issue raised by the structure of the corporation and the location and centralization of power is the share of large corporations in the total economy. And there are two reasons why that goes up, even though the market shares remain the same. One is that there has been a tremendously large diversification move in the United States, so that while in each industry the companies are not increasing their share, by going across many industries the large firms have been increasing their share of the total economy. Economists are always one generation behind in their measures of what is important.

The second thing is that, as industry grows on a world-wide basis, replacing agriculture, and as modern service sectors grow, replacing old-fashioned service sectors, large enterprises grow as a share of the total economy, even though within industry they may keep the same structure.

Those are the kinds of concentration I am talking about. It happens as you get what has been called development in the last 25 years, which has been a success in the sense that it has converted the under-developed countries into labour-surplus economies. It has created a labour surplus in all these economies, which are now ready for wage-labour and employment, who will then get their incorporation into large enterprises and the kind of hierarchy of decision-making that I suggested would happen. Although, again, these are empirical questions which can be studied and which I think have not been.

Question: If you follow a strategy of producing basic necessities, may you not find yourself unable to find exports in order to incorporate your market in the international market?

Reply: If you attack misery, what happens in international market growth? It is a very difficult question. First of all, I would think there would be much less emphasis on the international market, but that of course would not take care of certain things that have to be imported. I think that the bill of imports would be much less than it is now, because a great deal of the imports are in fact things that go for upper-middle-class consumption and not for basic consumption. But none the less, you would have to have international trade, and if there was a study of the kind I mentioned, in which you took the 16 basic goals and you did the study, we could find out to what extent you need international trade partners.

Another thing to remember is that, very frequently, the most successful exports of countries are precisely those things that are aimed first at the international mass market. When you pick a strategy of export expansion, which many underdeveloped countries are doing now, where you invite a firm in, you give it various kinds of subsidies to produce things for marketing in a foreign country. It stays as long as you give it the incentives, then afterwards it moves on, because it has no solid basis in the country. But many of the most successful stories of exports are things developed primarily for the domestic market and, in developing them for the domestic markets, you develop some kind of specialty in them. You develop knowledge in them, or you develop a special technique, or consumer satisfaction other people do not have, and they then become exportable. There is a famous book by Staffen Burston Linder, in which it is shown that most trade, at least between advanced countries, takes place in those goods in which they specialize for the home market. He wrote a book on the underdeveloped countries also saying the same thing: that internally oriented markets would be the most promising for the production of exports rather than an export market.

Question: It has been shown that between 1944 and 1960 75 per cent of the top 200 decision makers in the United States in respect of foreign policy came from or were in some way related to corporations. Do you think this has an influence on decision-making?

Reply: I find the last question the most intriguing. That question is, "What is the nature of the political influence exercised by multinational corporations?"

There are two different kinds. One is where an officer of a multinational corporation actually bribes the president of -- we used to say only South American countries, but now it seems some North American countries have that problem also -- and the same companies too. For the newspapers, this is the best press. It is a big scandal, and it involves $100,000 and people can understand that. It makes a lot of publicity.

I do not think that is the most serious or most important thing to concentrate on. Not at all. I think that brings out the populist tendency in everybody and it produces a seven-day wonder. Everybody watches it, everybody talks about it, and then it dies down, because it is not the real thing. The real thing is what goes on every day, in every-day life. And there it is much more important to notice that most of the government officials of the United States associated with foreign policy or other policy do in fact come from a background of corporate executives: their friends and their training. And that gives them a certain perspective of the world, a certain idea of what is right and a certain idea of the way to do things. And it gives them one-dimensional thinking. They are not very creative in thinking of socialist alternatives, or socialist foreign policies, or anything like that. For them, the question never arises. They think along a certain line, and it is precisely this one-dimensional thinking I was concerned about with regard to this Report and with regard to the United Nations. If that is the way you look at things, and you accept the way things are and get a lot of advice from multinational corporations and from people who have been active doing things in the established way, you will again come up with just one-dimensional thinking. You will see the world only one way. Not only do you accept living in the world, but you cannot even imagine there is another way to live.

Now, I do not believe that is true. I believe people have lived in many different ways since the beginning of history, and people live in many different ways now, that there are options and that the modern material base and the modern technology has created those options and that there is a great hunger throughout the world, especially among the young, to think of those options.

As my last word, I would only plead with you that you think of alternatives also.

Abderrahman KHENE
Secretary-General
Organization of the Petroleum Exporting Countries

Summary of written and oral statement

It is a fact with which more and more people now agree that the services rendered by the multinational corporations are far less than the tensions they create, and that the potential dangers associated with their activities outweigh the advantages derived from their international operations. In this connexion, it is noticeable that these activities in developing countries (which is our main concern) are undertaken only where and when the prospects of a lucrative return on investment have been assured.

On the other hand, while it is agreed that the multinational corporations have been and still are regarded as useful in order to introduce new technologies into developing countries, they are also associated by many people with illegal operations and political interference in the developing host countries which bring more disadvantages than advantages for the world community.

As far as the oil industry in the oil-exporting countries is concerned, the Organization of the Petroleum Exporting Countries was established in September 1960 as a means of self-defence against the irresponsible actions taken by the multinational oil companies which had unilaterally cut down the oil posted prices, thereby reducing the State income and endangering the welfare of these host countries. This notion of self-defence is self-explanatory in depicting how the powerful position of the multinational corporations could lead them to abuse the fundamental interests of the host countries. The oil host countries have expressed general dissatisfaction because of the lack of care on the part of the multinational corporations of a wealth which represents a main, if not the only, means of their development, and, more recently, specific dissatisfaction because of the intensive resistance of the multinational corporations to their desire, and the national aspiration of their people, to obtain control over their resources.

In connexion with this, the opinion expressed is that the conditions under which the multinational oil corporations obtained their initial concession agreements are to be considered as nullifying from the point of view of the universal principle of "equity" as well as the principle of "capacity", since the terms of such "agreements" are so obviously unbalanced between the parties. Examples of these are the IPC concession in Iraq; the Iranian concession; the concessions granted in countries at the time of their colonial status by the ruling power. The conclusion which ought to be drawn from such a situation is that such "agreements" should be terminated, and in most cases it can be considered that the compensation which might be claimed has been satisfied through the very handsome returns enjoyed during a considerable number of years, particularly since the profit from oil operations has been several times higher in developing countries than in industrialized countries.

Another feature of the multinational corporations which deserves attention is the access to mass-media which they have had and still have, through which they can - and have - misled public opinion, thus playing a major role in the political sphere. In this connection, it should be underlined that although generally accepted to be international in their operations, these corporations are in fact national corporations of their home countries, the interests of which dictate their global activities and the benefits of which are directed towards these home countries. In return, they generally enjoy the support and backing of the Government of their country of origin, the consequence of which is the involvement of the home country in the political affairs of the host country.

Although the ability of the multinational corporations to utilize financial, physical and human resources around the world and their capability to develop new technology is very real and could represent a positive aspect of their activities, it is obvious, however, that such an aspect bears too high a cost for the developing countries, either economically, socially or politically.

Given the fact that the multinational corporations already exist and the negative as well as the positive aspects of their abilities and activities, the United Nations would be serving its objectives well if it could succeed in establishing a set of criteria for the conduct of these enterprises and provide measures for their enforcement, the aims being to introduce some measures of accountability to the international community and to safeguard the legitimate interests of the developing world. To do so, one suggestion is that the affiliates of such enterprises should be established, at the outset, under the true national control of the host countries, to which the whole project should be transferred after a reasonable period of time.

Summary of replies to questions*

Question: Would you agree that the main effect of OPEC has been an increase in the price paid by consumers rather than a reduction of the profits of multinational oil companies?

Reply: An increase took place in the Government-take of producing countries on 16 October 1973. The Government-take had been rather stable throughout the 1960s, that is to say, its purchasing power had constantly been deteriorating. Then the Tehran and Geneva Agreements provided for some compensation for such erosion, but only partially. Thereafter, the prices of oil products (which are sold by the oil companies) increased during 1973 in such a way that the oil-producing countries decided to increase their Government-take in an attempt to try to reap some of the windfall profits of the companies. Consequently, the latter were neither entitled to increase their prices as a consequence of this decision, nor had they the right to put the blame on the OPEC countries. The large benefits they made during 1973 were the result of their pricing policy before, and after, the increase in the Government-take of 16 October, making their profits higher and higher as compared to those of the other industries.

As for the interests of the consumers, these have to be taken care of, but not only those of the oil consumers; oil cannot be singled out from other commodities which are needed by other consumers, e.g. capital

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* Questions were asked by the Chairman and Messrs. Dunning, Schaffner, Deutsch, Uri, Miller and Sadli.

goods, manufactured goods, agricultural products, etc. This is why OPEC countries are expressing their readiness to sit and discuss all these questions provided that such discussions are not limited to the case of oil. Moreover, **of the prices paid by the end-consumers** for the oil, over 60 per cent is represented by the taxes levied by the Governments of the consuming countries.

Question: Could OPEC be considered as a kind of cartel?

Reply: OPEC came into being as an act of self-defence on the part of the producing exporting countries against the irresponsible behaviour of the oil companies. Now, OPEC, is not fixing oil prices; rather the market conditions are setting these. Moreover, as far as the producing countries' revenues are concerned, the last increases decided on were mainly to protect the purchasing power of these revenues and to try to reap windfall profits already made by the oil companies. In addition, it is emphasized that contrary to a cartel, which is a grouping of private interests, OPEC is dealing with public interests.

Question: What is the impact of oil price increases on inflation?

Reply: In the first place, the responsibility lies with the oil companies but it should be stressed that the share of energy (of which oil is only a part) in end-products is in the range of 4 per cent of the total cost.

Question: What is the amount, in absolute figures, of the last unilateral increase in the price of oil?

Reply: Rough calculations show that for the OPEC countries concerned, the increase will amount to some $1.5 billion, part of which is due to increased production.

Question: How have the extra funds accumulated by oil-producing countries been employed?

Reply: This is a problem which should be dealt with by financial experts. However, it is underlined, that, contrary to what has been voiced in this domain, these surpluses have had very little to do with the dollar position and its last devaluation, as would seem to be proved by the large losses incurred by such reserves as a consequence of this devaluation.

Question: How much per annum can oil-producing countries contribute to development purposes?

Reply: The impact of the oil price increase on developing countries is taken care of as far as the OPEC countries (which belong to the developing world) are concerned. It is pointed out that the consumption of these developing countries is rather small compared to that of the developed countries. It is stressed that this question has to be viewed in a broader framework, as the developing countries also import many other essential goods, the prices of which are continuously increasing. Nevertheless, the OPEC Conference has taken a decision on this subject, namely to explore ways and means of helping these developing countries to overcome their difficulties in this sphere.

Question: What arrangements are envisaged in case oil producers terminate the old oil-concession agreements?

Reply: No decision has been made. But if new concessions are granted, they will be in terms less abnormal than those granted in the past. On the other hand, it is believed in OPEC that a large field of co-operation exists between producing countries and multinational corporations, particularly in the oil industry; but this has to take place within a new framework, i.e. through service contracts and under the control of a host country.

Question: What is the cost breakdown of an oil barrel?

Reply: Production costs represent 19 cents or .92 per cent; transportation is 4.92 per cent, refining is 3.85 per cent, storage, distribution and dealer margins is 14.66 per cent and taxes levied by consumer countries are $12.72 which represents 61.96 per cent. The producing Government-take represents 7.84 per cent and the multinational corporation profits or share is 5.85 per cent. This adds up to a total of $20.53 per barrel.

Question: Would you agree that oil exploration, being a highly risky business, requires involvement of a multinational corporation?

Reply: The oil industry is better covered than ever before thanks to large improvements in technology.

Question: Is OPEC ready to negotiate within the framework of the energy policy with both developed and developing countries?

Reply: I believe negotiations on energy matters must be conducted by Governments. Scarcity of resources including oil is already threatening the world. The role of the multinational corporations as a decisive agent in the formulation of oil policy is ended.

Question: What is your experience of the transfer of the know-how of the major oil multinational corporations to growing national oil companies?

Reply: As for the question of co-operation in training and the transfer of know-how from the oil companies, experience has, unfortunately, shown that this is something rather hard to achieve, and, in referring to Algeria's experience in this domain, it has to be emphasized that this has only been achieved under great pressure and by giving young people direct responsibility, bearing in mind that some mistakes would be unavoidable and be part of the high price the developing countries have to pay in order to obtain access to modern technology.

Romuald KUDLINSKI
Director, Institute for Economic Science
University of Warsaw

Summary of written and oral statement

It seems to me that the report issued by the Department of Economic and Social Affairs is a first step on the road to permanent analysis of multinational corporations. In this case, even the character of the definition of multinationals can play an important role. The definition proposed in the report is too wide.

If the definition of multinational corporations is to affect the scope of the research to come, it would be desirable to take the risk of introducing an arbitrary criterion that would distinguish those enterprises which have a major influence on the international economy, the allocation of resources, trade and intergovernmental relations from those of international economic character.

The size of a corporation in terms of its assets or the volume of sales may be a proper criterion, since an enterprise, after exceeding a certain limit of development, is more or less bound to embark on foreign direct investment.

A tentative solution might be to single out the more than 200 corporations whose individual sales exceed one billion dollars (see Table 3 of the Report). These leading multinational corporations should be examined thoroughly. This is my first proposition. The second proposition is connected with the asymmetry in the distribution of the economic power of multinational corporations.

As a matter of fact, United States corporations play a particular role in leading multinational corporations. The statistical data available in the report and other sources clearly indicate this phenomenon. Among the 211 biggest multinational corporations there are numerous names of big enterprises that have long been active on the United States market. United States enterprises are responsible for more than half of foreign direct investment.

The unique economic power of United States-based multinational corporations and the specific properties of their operations should be thoroughly examined for two reasons. First, these corporations exert an extremely intensive influence on the development and economic structure of other countries. Second, there are a number of signs that the United States-based multinationals provide a yardstick for evaluating the activity of other multinational enterprises.

The most important questions are included in chapter III of the report. It presents a long list of implications concerning the tensions and impacts caused or predictable through the functioning and development of multinational enterprises. I understand that the authors intended to provide the most all-embracing presentation possible of the influence exerted by these enterprises on the reciprocal relations of nation States, on the sovereignty of the decision-making process within the national economy, the development programmes of individual countries, the balance of payments, the process of absorbing modern technology, etc. However, in pursuit of the all-embracing handling of these problems, they overlooked one of the most essential. Let me put it in the form of a question: How does the development of multinational corporations affect the system of forces existing between the developed and developing regions of the world?

The scientific and technical revolution embraced essentially the same States and nations as were the first to reach the take-off point in the 19th century. The United States played a particular part in promoting scientific production processes. At the same time, from the middle of the 19th century on, there spread a corporate enterprise that proved particularly useful in mobilizing great amounts of capital and undertaking mass production. Within the structure of the market economy, great corporations became the only power making possible the application of the latest scientific and technical achievements in production. They also enjoyed significant financial support from governmental agencies.

Modern techniques and technology cannot be contained within national boundaries. Their optimal application requires the use of the international market and international co-operation. The solution has been imposed by the logic of the market economy. National corporations have been transformed into multinational ones, using an exceptionally great expansion capability stemming from their technical and capital supremacy. Within the market economy, they have become the main channel for promoting modern technology.

If we now accept the assumption that the translocation of up-to-date techniques and technology takes place mainly through foreign direct investment, the problem becomes really serious, since a tremendous part of foreign direct investment is concentrated in the hands of multinationals.

We know where foreign direct investment gets translocated in the first place, as a result of decisions made by multinational corporations. The direct investment moves mainly to the economically developed regions. This primarily concerns industrial investment. Then we have to accept two facts which seem to be unquestionable. First, multinational corporations have been brought to life in the economically most developed regions. Secondly, they place a significant part of their direct investment in those same regions.

Both facts mentioned above strengthen the position of developed countries and regions, and threaten the development programmes of the remaining parts of the world that follow the rules of the market economy. This weakens the possibility of making up for the economic development lag in the poorly industrialized regions.

If that opinion is correct, it must be agreed that basic impacts and tensions are originating now and are bound to emerge in the forseeable future, in the developing regions as well as in the relations between these regions and the representatives of the highly industrialized countries, namely, the multinational corporations.

I fully share the opinions and warnings expressed along these lines in the report.

The activity of multinational corporations in countries that lack adequate bargaining power can and does lead to the restriction of sovereignty, the distortion of development programmes, the creation of modern industry "enclaves" that are weakly linked with the rest of the economy, and the imposition of foreign consumption and social patterns. This results in real and potential tensions and impacts.

The activity of multinational corporations in highly developed countries produces different results. Contrary to the views sometimes held, there is no reason to share misgivings that the activity of multinational corporations, let us say in Western Europe, may endanger or distort the development programmes of countries in that region. They have a sufficiently well-developed production capacity and State policy instruments to continue the activity of multinational corporations in line with national interests. One could proceed even further, and maintain that these countries have managed to start the mechanism for the quick absorbtion of up-to-date technology and to counteract the ill effects of economic decision-making by multinational corporations in key branches of production. If these mechanisms are strengthened, and there are many indications that confirm this trend, it may favorably affect the developing countries. The monocentric system of expanding the latest developments in techniques, technology and organization, based on the dominant position of United States-based multinational corporations, would then be transformed into a polycentric system where non-United States-based multinational corporations would play an ever-increasing part. If this trend gained in strength, the developing countries would face wider possibilities of choice.

I would like to end by proposing the following postulates.

(1) The most urgent task is to set up a Multinational Corporation Information Centre under the auspices of the United Nations. This Centre would be expected to collect, analyze and promote information on the activity of the leading multinational corporations, particularly in the developing regions.

The Information Centre would carry on a case-study of agreements and contracts that determine the conditions under which multinational corporations do business in various countries.

(2) Following systematic reports from the Information Centre, it would be advisable to arrange periodical meetings of the Group of Eminent Persons, during which a current evaluation of the multinational corporations' influence and activity would be made.

It is essential that the work initiated by the publication of the report Multinational Corporations in World Development should not be discontinued.

The reason is that the publishing of the report and the taking of the discussion to an international forum has already played a promising part.

(3) I also consider it extremely important to establish as quickly as possible, within the United Nations, a group of experts to provide all countries concerned with technical aid (in all possible ways) as the countries embark on the accomplishment of development programmes with multinational corporations participating.

(4) The suggestion to set up a Centre for Multinational Corporations embracing the corporations that meet the condition of being subjected to international control is extremely interesting.

Let me close by saying that the report Multinational Corporations in World Development provides a real steppingstone for a discussion and also an adequate premise for starting international action in view of the mounting problem of multinational corporations.

Summary of replies to questions*

Question: To what extent are the socialist countries prepared to give the developing world some of the things for which they depend today on the multinational corporations?

Reply: At present Poland maintains trade relations with 107 developing countries and territories and has concluded trade agreements and contracts with 42 countries out of these 107. Poland's aim is to conclude long-term agreements that could provide optimal mutual benefits in the long run.

Poland gives preferential treatment to the developing countries by taking into consideration their needs and the possibilities of shaping the pattern of commodity trade, the terms of payments, the range and character of delivery, and credits and payment of the credits granted.

Poland's volume of commodity trade with the developing countries has been increasing systematically for the last few years. In 1971, the value of trade turnover rose by almost 10 per cent in comparison with 1970. Polish imports from these countries have increased by more than 16 per cent and the value of Polish exports to these countries has grown by almost 5 per cent.

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* Questions were asked by the Chairman and Messrs. Uri, Somavia., Miller, Mansholt, Bunning, Estrany y Gendre and Ivanov.

As for the structure of this turnover, some changes have occurred in the last ten years which reflect the constant diversification of Polish imports in keeping with the interests of Poland's trade partners.

As regards import structure, there has been a noteworthy increase in the proportion of machines and equipment, from 2.5 per cent in 1960 to 8.9 per cent in 1970, as well as industrial consumption goods which rose from 1.0 per cent in 1960 to 7.9 per cent in 1970. Raw materials and semi-finished products constitute the most important group in the imports from the developing countries. They amounted to 74.9 per cent in 1960 and 64.4 per cent in 1970.

In exports, machines, equipment and means of transportation play an essential part. They amounted to 35.6 per cent in 1960 and 41.6 per cent in 1970 of the total Polish export to the developing countries. Exports of Polish raw materials, fuel and semi-finished products to these regions remained virtually unchanged (37.3 per cent in 1960 and 35.5 per cent in 1970) as did the export of foodstuffs (10.9 per cent and 10.5 per cent respectively).

Complete industrial plants play a very important part in the field of investment goods supplied by Poland to the developing countries. In the last few years, Poland has provided the developing countries with several dozen plants of various kinds such as sugar refineries (Indonesia, Iraq, Iran, Morocco, Pakistan and Sri Lanka), slaughter-houses (Syria), oil mills (Turkey), woodworking plants (Pakistan), coal mines (Indonesia), hardware plants (Kenya, Tunisia), chemical industry facilities, etc. Mention should also be made of such construction projects as bridges in Egypt and Iraq, and housing projects in Libya. Following orders from the developing countries, Poland makes technical and economic reports on the designed facilities (eg. shipyards or chemical plants) and supervises assembly and installation operations.

The work of Polish skilled personnel in the developing countries is an essential form of aid for these countries. The number of specialists assigned to work abroad, beginning with 1968, has steadily increased: there were 453 Polish specialists in 1968, 530 in 1969 and 707 in 1971. These figures, however, do not give the full picture: they include only the skilled personnel working under individual contracts and exclude those engaged in the developing countries through international organizations, mainly the specialized agencies of the United Nations. Most Polish specialists are employed in Africa: 59 per cent out of 707 Polish specialists were engaged in the developing countries in 1972.

Question: What are your views on joint ventures?

Reply: Poland's economic co-operation with the developing countries has so far rarely taken the form of joint ventures. However, the establishment of such ventures would bring the following benefits to Polish partners:

(a) Poland assumes full responsibility for the efficient functioning of such a venture.

(b) Payments to Poland are mostly accomplished by means of goods produced by plants built in co-operation with Poland.

(c) Training for specialists from the developing countries is provided in conjunction with the delivery of Polish machines and equipment.

(d) Joint ventures make possible direct contact between the local population and foreign specialists, and speed up training through participation in production organization and plant management.

The following factors are of great importance as regards credit policy: credits offered by Poland, especially governmental credits, carry low interest; there are no political strings attached to these credits; in many cases, the payments are made with goods produced by Polish-built plants. Altogether Poland has given credit to 27 developing countries.

One hundred and sixty industrial plants and facilities have been built by means of Polish technical aid and credits granted to the developing countries. Thirty-nine projects are under construction. Out of those put into operation, 82 were constructed in Asia, 75 in Africa and 3 in Latin America.

Eighty-five countries out of the 107 with which Poland maintains trade relations enjoy free exchange settlements. Clearing agreements have been signed with only 22 countries. Under clearing agreements, the developing countries have additional possibilities of procuring essential machines, equipment and technology through payments in their own goods, frequently produced by machines provided by Poland under such agreements. Nevertheless, Poland is always ready to consider favourably any application for changes in the terms of payments to meet the needs of its partners.

Pierre LIOTARD-VOGT
Managing Director
Nestle Alimentana S.A.

Summary of written and oral statement

The multinational company is presented today as a kind of separate specimen, a phenomenon that has recently appeared and is therefore very different from what existed hitherto. In fact, however, the multinational activity of a company is only a particular feature, among many others, of certain companies which in no way confers on a company characteristics that are very different. The very fact of manufacturing and selling elsewhere what one started out by doing at home does not, *ipso facto*, confer a special character on a firm. Apart from their size, therefore, multinational firms are not basically different from national companies.

All industrial firms have set themselves up in a specific country, have grown and developed on the international level under a strong impulse which is of two kinds: trying to achieve greater efficiency and - why not admit it? - seeking profit. The desire to come nearer and nearer to fulfilling growing needs of all kinds, many of which can by now be considered elementary needs, has driven firms to try to produce ever more and better. Nowadays, when we talk about the saturation of needs, do we really believe that, even in the developed countries, there is a large proportion of people who feel that all their aspirations are fulfilled?

A nation's prosperity closely depends on the activity of its firms, whether they are industrial, commercial, or both, as often happens. This fact is illustrated by the situation of the majority of developing countries which, not having been capable of setting up a processing industry or not having been in a position to do so, are only just managing to survive, thanks to their agricultural production. Firms also condition the lives of a great many individuals who work for them, either directly or indirectly. Moreover, at present, a firm is not only a means for eating, dressing, travelling and enjoying all the facilities which modern life has to offer. Its responsibilities go far beyond that, because our very life form depends on the economic structures which have been set up empirically - sometimes under conditions of anarchy - as industry kept growing.

In order to answer those criticisms which are aimed at industry most frequently, it is necessary to point out some of the chief advantages of large companies. Let us first recall that the improvement in our standard of living is closely linked with technological progress, and that this same progress is the result of increasingly costly and increasingly essential research. Large companies have, therefore, made a valuable contribution to a less costly standard of living by supplying to an ever-growing public products which, in the past, either did not exist, or were only within the reach of a fortunate minority. On a social level, it is admitted by all concerned that, on average, the salaries paid by the large companies are higher and jobs are safer. On a civic level, the large companies are integral tax-payers, not because their directors belong to a more virtuous category of people than others, but because fraud is practically impossible. On an international level, the large enterprise permits better understanding between the nationals of different countries thanks to the exchange of staff. At the headquarters of Nestlé nearly 40 per cent of the executives are foreigners. Finally, the surest merit of the large enterprise whose activities are multinational is to be able to offer the developing countries a contribution which can come from no other source.

Only the large international enterprises are in a position to play this pioneering part, and the Nestlé Company feels honoured by the fact that, for a long time, it has been in a position to offer its contribution in this field to the majority of developing countries. Thus, there are 81 Nestlé product factories in 27 developing countries where we employ over 27,000 people out of a total of 116,000, and many more are planned. It should not be overlooked that these factories make a lasting contribution since, once they have been built, they cannot be shifted or destroyed. Thus they will always work for the benefit of the country's economy.

Nestlé, therefore, has undertaken to educate farmers particularly in the developing countries: it has helped to improve pasture lands and fodder, selected the types of cattle best adapted to the area in question, built roads to provide access to the farms where the cattle are and provided transport for the milk to the factory. Lastly and above all, it has had the means and ability to give the farmers a guaranteed market for their milk and to ensure that they get regular payment. Such production would never have been possible if it had not been coupled to a canned milk industry, because the distances are frequently such that the transport of fresh milk to an urban centre had to face insurmountable difficulties.

Nestlé has not only created a great number of jobs, but also provided staff training at all levels, including the highest. The number of European personnel, which originally had to be fairly high to solve the teething troubles, is continually falling and today is quite insignificant. To give you a few figures for 1971: in Colombia, for instance, there were 25 foreigners out of total force of 1,507. In Argentina, there were 37 foreigners out of a total of 2,528 i.e. 1.5 per cent. In Brazil, there were 63 foreigners out of a total of 5,155 people i.e. 1.2 per cent. In the Far East the proportion is even lower in some countries. In Malaysia, for example, there were 13 foreigners out of a total of 538. The figures for Singapore were 5 and 144 respectively, and in the Philippines 9 and 782 respectively. In India, Nestlé has two factories which only employ 7 foreigners for 708 Indians.

In contrast to these positive aspects of the large enterprise, what are the reproaches it most frequently incurs? Frequently there is talk about an abstract concept which is said to be the power of companies putting a check on the power of Governments. It is enough to see how easily some countries, financially and military among the weakest, nationalize or sometimes bully in some other way the subsidiaries of the largest enterprises in the world to realize that this power is non-existent.

It has also been said of the large multinational companies that the centre of decision is in the country of origin and therefore decisions are taken at a distance, solely dictated by selfish considerations and without regard for any social or economic upsets these decisions might involve. First, what reason is there to believe that decisions taken by purely national companies would be solely inspired by concern for the general interest, whilst the company's interests take second place? It is unreasonable to make a distinction in this respect between the behaviour of the national and that of the international companies.

Multinational companies are also attacked on a very particular point: their relations with the trade unions. One hears a lot today about the need to have a multinational trade union movement to oppose the multinational companies. If they wish to do so, the trade union organizations belonging to many countries are perfectly entitled to work together to attain their ends

But who will be really convinced that purely union problems, that is to say the problems of work which have to be discussed and solved between employees and employers, can be globally solved by a multi-purpose international union organization and the head office of a multinational company? This is first to hold the existence of the national unions which, surely, have no intention of being deprived of their natural powers, of little account, and it particularly shows a failure to recognize the structure of a multinational company which has to leave a wide measure of self-management to its subsidiaries, above all complete responsibility for local labour problems.

Does this mean that the multinational companies are perfect and free from all possible blame? It would not be fair to go so far as to claim this; for although, on the whole, the large companies have greatly contributed to the raising of the standard of living of the population and although the balance of their activity is definitely positive, it would, on the other hand, be quite wrong to ignore the need for evolution, which must not lag behind the evolution of the mind which we have all undergone.

Nowadays a company cannot allow itself to have as sole objectives, on the one hand, the production and sale of first-class products which the customer would like to buy and, on the other hand, high profits so that big dividends can be paid to its shareholders. The larger the company, the more it should be fully conscious of the part it plays in the economy of the country where it is situated, and of its social and human responsibilities both to its staff and to its Government. That is why its managers should understand the need for civic behaviour in all respects, so that the activities of the large enterprise shall be above reproach.

Let us now consider certain proposals contained in the United Nations report. First of all, it seems obvious that we cannot take a definite stand on the proposal to make the United Nations a world-wide central body responsible for supranational control. And for two reasons: firstly, because one has to reckon with the attitude of the national authorities who are rightly jealous of their independence in general, and on the matter of control in particular. The second reason follows from the first: the national States can perfectly well apply a legislation enabling abuses to be sanctioned.

The countries of origin are always in a position to ensure effective control if they wish to. As for the host countries, they have complete latitude to establish very clear and precise rules on the matter of foreign investment. The multinational companies, with full knowledge of the facts, will be free to invest in these countries or not. Negotiations between host countries and multinational companies must be conducted freely and based on mutual interests.

Conflicts will inevitably occur from time to time between Governments and foreign companies. Most of them, however, as experience shows, can be solved by negotiations between the two parties. The presence of a third party would aggravate these negotiations and give them an emotional publicity which would certainly not make it easier to find a solution.

On the other hand, the establishment of a good conduct code could have advantages both for the multinational companies and for the host countries since it would specify the duties and rights of the companies and States. However, if such a code is to have any value, it is essential that it stipulates not only the obligations of the multinational, but also those of the host countries and countries of origin.

Summary of replies to questions *

Question: What is the possibility of private or national participation in the capital of your subsidiaries in the Latin American countries, and what is the possibility of using raw materials from one country of the Andean Group for producing and exporting to other countries of the Andean Group?

Reply: In Latin America we already have certain local joint ventures in some of our companies. At present we are studying the possibility of extending such joint ventures to other countries, i.e. transferring shares of some of our companies to local investors.

Question: Would you be in favour of international trade unions being represented at your central office in such a way that such representation could deal with social as well as economic problems?

Reply: In principle, I am not opposed to the presence of representatives of international trade unions at our Head Office, but I do not think that such representations can play a truly useful part.

Actually, what decisions are taken at headquarters? They belong to certain specific fields: research, which is more efficient when it is not dispersed over several countries; financing of the companies which we own; training of executives in which we take an active part; the transfer of executives from one country to another; the continuous organization of training courses, to enable us to send the best possible personnel everywhere.

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* Questions were asked by Messrs. Prebisch (consultant), Mansholt Uri and Diawara.

On the other hand, decisions on the management of the subsidiary companies are made by the management of these companies themselves. Their managers are entirely responsible for long-term management and day-to-day decisions, and they are the people who decide on future investments. They submit their plans to us and we accept them if they are justified, and on the whole such proposals are, in fact, accepted.

In many countries, representatives of the trade unions or staff are present on the management committee or the board of directors. This is particularly true in the Federal Republic of Germany, the Netherlands and France. They must be informed of important decisions.

We have companies in these countries; never have the local managements shielded themselves behind headquarters so as to refuse giving a specific piece of information or to avoid studying a request from the trade union or staff representatives.

The managements of the subsidiaries are sufficiently responsible and autonomous. They would certainly not accept a decision which would be against the interest of their company simply because it was sent out by the headquarters.

It is not possible to adopt a decentralization policy which makes firms as autonomous and as national as possible and, at the same time, adopt a centralization policy as far as decision-making is concerned, necessary for any possible dialogue with international trade unions.

In such a case we should, at any rate, be confronted by a representative international trade union. At present this is certainly not true of all countries where we have associated companies. The national trade unions always claim to be the only interlocutors on problems concerning their countries.

Question: Do you consider that the difference in treatment given to foreign companies, e.g. in the Andean Pact, according to whether these companies set up a new industry or buy an existing company, is justified? Also, what do you think of the tax concessions offered by developing countries to multinational subsidiaries which go and settle there?

Reply: Firstly I should like to remind you of the fact that we belong to the category of multinational companies whose growth has basically been ensured by their own development and that, by allowing this, we have had many cases of success.

We tend to buy companies mainly when we diversify our activities into a field where we have no experience. Once we have acquired this new kind of experience, we create industries from zero in various countries. There are, however, certain cases of the saving of a company. We buy it and integrate it into our business. These companies are usually too weak to develop by their own efforts.

To answer your question, I think it is justified that the developing countries, for example those in the Andean Pact, should make a distinction between the setting up and the buying of an industry. These countries need to set up a national industry and we must help them to do so.

As far as tax concessions are concerned, I should like to draw your attention to the fact that the profit made by a company depends basically on its production capacities and on its sales possibilities. Thus, a low rate of tax on profits will certainly not constitute a convincing argument for investing in a country where sales possibilities are reduced.

In any event, this never happens in our case. The main part of our profit comes from Germany, France, Japan, the United States and other countries where the rate of tax on profits is particularly high.

As to tax concessions, I think that three distinctive cases must be borne in mind:

- Cases where concessions are granted for a short period, during the first years of activity, i.e. precisely those years during which the company makes little or no profit.
- Cases of companies which set up an industrial activity in countries where such activity is not economically profitable. In such cases, which are rare but do exist, the host country has to help, for otherwise such manufacture would not be able to subsist.
- Lastly, there is the case of companies which are granted permanent tax concessions. If this practice is not justified on economic grounds it is immoral. In our company there is no case of this kind.

Question: How should the multinational companies be controlled in the countries of origin and in the host countries? Would you accept such control measures?

Reply: What does "control" mean? If it means checking whether the acts and activities of a company are in accordance with the law, we accept it. If you are thinking of control of the "power" of the multinationals by an international organism, I have already dealt with this subject in my report. I repeat that I don't see where the "power" of multinational companies lies. In fact, they have none, compared with the power of the State in the countries where they are established.

It is very difficult to express an opinion on a form of control which would be supranational. Before doing so, one would have to know what kinds of control are involved and whether they can, in fact, be effectively implemented. But, above all, one would have to define and establish what are the negative activities specific to multinational companies in general which would justify such supranational control measures. Personally, I don't see any.

Renato LOMBARDI
President, International Chamber of Commerce

Summary of written and oral statement

Governments and multinational enterprises have legitimate interests and points of view which may sometimes differ but can very often be reconciled through better information, discussion and negotiation. The series of panels on foreign investment in developing countries organized since 1969 by the United Nations have certainly been found helpful by business and have led to a better understanding of the positions taken by Governments and thus to the modification of the attitutes and policies of enterprises.

Since 1969, the International Chamber of Commerce's policy has been to provide the factual information concerning multinational enterprises that has often been lacking but which it sees as an essential basis for constructive policies. Currently under preparation within the ICC is a report concerning the basic issues in connexion with which multinational enterprises have been subjected to criticisms; this report will set out the factual answers of well-known companies to common criticisms on matters such as their alleged freedom from governmental control; their attitudes to profits; their control of overseas subsidiaries; the development of export markets; the implications for national tax revenue; policies concerning ownership, control and management; policies concerning technology transfer, financial transfers; financial disclosure; capital raising; labour policies; the switching of production; competition with local enterprises.

Perhaps of the greatest direct relevance to the Group's study, however, is the ICC's publication "Guidelines for International Investment". These guidelines are addressed to the investor, the Government of the investor's country and the Government of the host country. They cover comprehensively the points of potential conflict between investor and Government and represent the views of the business sector of 21 industrialized and 26 developing countries.

Organizational structures, ownership and management

The Report of the United Nations Secretariat emphasises the adaptability of multinational enterprises to changing conditions and to different investment climates - an indication of their abiding need to play an active role within the economic and social development plans and priorities of the host country.

The ICC's Guidelines for International Investment indeed enjoin the investor to ensure through consultation that his investment conforms with governmental plans and priorities and urge him to be frank as to his expectations and policies both with the Government and with the public of the host country. However, investors need stability, continuity and the opportunity for growth. They need to be informed fully of the host country's economic priorities and of the conditions, limitations and financial charges to which their investment will be subjected.

The ICC's Guidelines propose that wherever practicable the investor should be willing to examine favourably proposals for association with local interests or to offer part of the equity of the subsidiary for purchase or subscription by local investors. The investor is urged to promote host country nationals to posts of increasing responsibility and to provide the necessary training and experience to make this possible.

Such recommendations, of course, do no more than reflect the best current practice of responsible companies. Even the most enlightened and well-intentioned company however cannot successfully adopt such policies unless the Government of the host country itself adopts a realistic attitude. Governments that wish to encourage local participation in foreign controlled businesses will need to adopt policies that make this feasible in practice.

Profit management

The ICC would not seek to defend irregular practices by companies which tend to make international transactions less transparent and have distorting effects on competition in both countries involved. There is no reason to seek to remove obstacles to such practices provided that they do not at the same time place obstacles in the way of normal business operations. There are in fact many more factors that act as a disincentive to the transfer of profits through pricing devices than are listed in the United Nations Report.

The fact that in 1965-1968 "United States multinational corporation operations were twice as profitable in developing countries as in developed countries" is solely due to the special position of oil. Yields on non-oil assets were, for the United States, 9.1 percent in less developed countries and 10.4 percent in developed countries; and for the United Kingdom 8.9 percent in less developed countries and 8.5 percent in developed countries (1965-1968). Oil companies have not so much a "preference for declaring profits for tax purposes in the producing countries", as an obligation imposed on them by the Posted Price system to concentrate their profits, for tax revenue purposes, in the producing countries.

Transfer of technology and skills

It is assumed that any recommendations that the Group might formulate in this area will aim to facilitate and encourage this kind of transfer and persuade investors and Governments to apply reasonable, fair and realistic conditions. Our Guidelines seek to indicate how such conditions might be defined. We hold that adequate legal protection for industrial property and fair remuneration for its transfer provide the only long-term framework in which the technological knowledge of industry in industrialized countries can be effectively and speedily made available and put to use in developing countries.

Balance of payments

In 1964-1968, United Kingdom and United States multinational companies invested 12 billion dollars in developed countries and 3.2 billion dollars in developing countries, receiving 17 billion and 5.8 billion dollars of income from each respectively, on non-oil activities.

A situation in which investment returns exceed current capital exports appears to be the norm. This arises essentially from the nature of industrial enterprise. A manufacturing installation, once set up by the use of original capital, will proceed to expand and will increase its fixed assets, mainly through its cash flow. Thus as time passes the flow of profits derives from sources of funds other than new equity capital. This process is inevitably reflected in the balance of payments accounts of developing countries; they only receive capital and only return income.

However, the full effect on resources of the host country can only be stated after all the inputs and outputs have been considered, i.e. after the total inputs - new capital inflow + cash flow of the subsidiary - have been counted against the outflow - remitted earnings. The resource balance of developing countries in the years 1964-68, expressed in this way, was a positive figure of 1.4 billion dollars.

Implications for the international monetary system

Reservations must be placed on the proposition that multinational enterprises shift liquid assets for speculative purposes. The amount of $ 190 billion which the United States Tariff Commission attributes to multinational enterprises includes the inventories and receivables of multinational companies and also includes all the foreign assets of banks. The report of the Tariff Commission shows the short term assets of multinational corporations to be not so much liquid and mobile funds as the counterpart of trade credits and debits. Shifts in these are no more than the phenomenon of "leads and lags", already familiar.

Neither the subsidiaries nor the parents of international companies maintain large balances of unused liquid funds. Speculation is considered a risky activity and is normally forbidden by the financial regulations of the company.

Taxation and related jurisdictional issues

It would be unreasonable to expound policies only for the protection of national revenues in particular situations, ignoring the penal tax burdens imposed on multinational activities almost everywhere. Difficulties attributable to Government policies arise principally in connexion with dividends, interest, royalties and charges for management, technical and other services.

Taxes witheld at source from dividends paid to multinational parent companies and not relieved in the home country constitute the most widespread penalty on multinational investment activities. Double taxation conventions have signally failed to deal with the problem, so that almost any multinational corporation investing in a broad range of twenty or so countries finds itself at a 20-25 percent disadvantage compared with national corporations operating within their own markets.

Withholding taxes on interest, royalties and charges for services present a similar problem. Being based on gross payments, they frequently involve a burden of tax on nil net income after borrowing and other costs, or an excessive rate on net income in other cases.

In every case, the only solution is for Governments to agree between themselves to take action to eliminate these tax barriers to international investment. Until this is done, only such investment and enterprise as is sufficiently profitable to absorb the penal taxation will take place.

Restrictive business practices by multinational enterprises

There appears to be no need to single out restrictive practices by multinational enterprises as a special category of such practices. The UNCTAD Secretariat has been investigating the subject for a number of years and has compiled information from responses to questionnaires sent to the Governments of developing countries. The scarcity of evidence of anti-competitive behaviour of multinational enterprises can only establish the invalidity of a presumption that such enterprises are prone to abuse their economic and financial power.

It is doubtful whether the harmonization of restrictive business practices legislation could be achieved on an international scale. The UNCTAD report states the unanimous view that the method of controlling restrictive business practices could well vary from country to country, depending on the level of economic development in each country and its social, economic and even political objectives. The ICC's Guidelines suggest that, if there is abuse of a dominant market position, the Government of the host country should, in preference to the immediate application of restrictive regulations, seek to remedy the situation either by stimulating competition, especially through the encouragement of new investment and the lowering of import tariffs, or by recommending a change in the investor's practices.

Labour policies of multinational enterprises

Regarding relations between employers and employees, the Guidelines contain important recommendations to investors and to Governments which have been drawn to the attention of the International Labour Organisation and taken into account in the ILO's recent work on multinational enterprises and social policy.

International machinery for the settlement of disputes

The ICC Court of Arbitration provides machinery for conciliation and arbitration in connexion with investment disputes. Among the growing number of disputes handled annually - now approaching 200 - approximately one-third involve either a State, a State Board or a State-owned enterprise.

Host country programmes

If a country desires foreign investment, it needs to take into account the objective requirements of foreign investors. The primary deterrent to investment is uncertainty. Continuity in a country's policies, whether over tax, local participation or development plans, in itself therefore increases the amount of foreign investment which will be made in it.

Possibilities for international action

(i) Concerning the need for an appropriate international forum in which views can be aired and problems discussed, the International Chamber of Commerce doubts the need for new institutional arrangements. The series of panels on foreign investment in developing countries already organized by the United Nations has proved a highly satisfactory instrument for constructive dialogue. These panels could therefore usefully be placed on a regular and continuing basis, dealing with problems both on a world wide and regional level. The ICC is willing to participate at any time in similar discussions concerning problems associated with international investment and the operations of multinational enterprises and to arrange for appropriate business sector participation in such discussions.

(ii) The International Chamber of Commerce and its members would certainly co-operate fully in any programme for the collection and dissemination of information concerning multinational enterprises.

(iii) Concerning the harmonization of national policies, the report refers particularly to the taxation of profits of subsidiaries and to the harmonization of investment incentive measures and environmental regulations. The ICC would support action in these areas as being in the interests of international direct investors.

(iv) A broad international code of conduct in respect of multinational corporations has been suggested. The ICC Guidelines are probably the only existing comprehensive series of proposals in this area and the ICC would welcome their use as a basis for discussion or "as a guide to the review and appraisal of the activities of host and home countries as well as of the multinational corporations".

(v) The proposal of a register of multinational enterprises might well find favour in business circles if, as proposed, it is combined with new procedures for complaint against mistreatment and these procedures are efficacious. A legal frameowrk for international corporations however does not appear realistic in the foreseeable future, especially in view of the acknowledged difficulty of defining such corporations.

(vi) The proposal to make use of appropriate machinery for the settlement of disputes between investors and Governments is fully supported and attention is drawn to the role that the ICC's Court of Arbitration already frequently plays in this exact respect.

So far the problem of multinational corporations has been tackled as a whole, but there are substantial differences in the circumstances in which multinational corporations are called on to operate. I should like to mention three major categories: multinational corporations originating in and operating in highly industrialized countries; multinational corporations originating in highly industrialized countries and operating in developing countries; and multinational corporations created between capitalist and socialist countries. The approach must be different according to the circumstances. For the multinational company operating in highly developed countries, all the problems can be solved by harmonization of the legislation on limited companies or by the production of international statutes for the multinational company as such. When we turn to multinational companies operating in developing countries, any eventual regulation appears much more complicated because the national economic programme, the national income policy, the national taxation system may be much more varied than in the highly developed countries. We find even greater differences when we consider the possibility of multinational companies operating between capitalist and socialist countries.

My conclusion is that no rigid and uniform regulation is feasible. The only possible solution is to have broad fundamental principles accepted all over the world, and then to work on some kind of guidelines or codes of behaviour sufficiently pragmatic and flexible to allow them to be adapted to circumstances which are changing so rapidly that we can hardly follow them.

Summary of replies to questions*

Question: Can guidelines or a code of conduct be useful?

Reply: There may of course arise specific questions which call for something more than just advice or a guideline. However, this shows that circumstances can differ so much that we cannot aim to produce strict and definite rules and regulations capable of taking care of all cases; It is true that arbitration and intervention of international bodies would necessarily be limited, but nevertheless I think that some guideline, agreement or code could provide a definite possibility of intervention by international bodies when necessary.

Question: Is an international body needed to follow the activities of multinational corporations? What is the ICC's experience with the guidelines so far?

Reply: Guidelines are recommendations; but if we establish rules, they have to be complied with, and it must be possible to enforce them and condemn those who do not comply. In such case, these rules must be clear and applicable to everybody, with everybody in the same position before them. When we speak of multinational companies, the situations differ so widely that to claim now that we can produce rules of this kind in terms of justice seems almost inconceivable. That is why I mentioned the need for a pragmatic approach.

I do feel the need for some kind of an international body. I think that we do not need a specific body for multinationals because problems are not sectoral anymore. No monetary problem is only monetary; there is no social problem which is only social; there is no economic problem

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* Questions asked by Messrs. Miller, Mansholt, Somavia, Schaffner, Estrany y Gendre, Dunning and Weinberg (consultant).

which is only economic. We need something therefore which can summarize the findings and the indications of specialized bodies to achieve a global approach. This body should certainly deal with multinational companies because they are particularly involved in this bunch of different problems. As to ICC experience regarding the efficiency of the guidelines, they are too recent for the expression of any experience. In many organizations in which there are guidelines, there is the institution of a black list. In other words, there is a tradition of singling out those who do not comply with certain behaviour which has been recognized as necessary. But usually the identification of such circumstances comes under the initiative of one of the interested parties. I do not think that the statutes of ICC entitle us to take the initiative of pursuing a multinational company, but we could act on the initiative of one of the interested parties. I think that the ICC could well co-operate to this effect.

I can say that any time we meet with misbehaviour, with practices intended to avoid taxation and to hide profits, we are against it. That is quite definite and I wish it to be put on record. We cannot expect everybody to behave always in the most moral and correct way. The only solution is to prosecute the ones who do not. I do not think, however, that even the most convinced supporters of international organizations can pretend that there is an international body capable of prosecuting a taxpayer who is not paying the taxes that he should. I do think that guidelines such as those produced by ICC, or much better ones which can be produced by somebody else, can have a practical impact, can influence the attitude of the multinational corporations and can produce changes in their behaviour. I think that a set of guidelines, not only produced by private organizations like ICC, but possibly sponsored by an authoritative body such as the United Nations, could have a great impact, at the same time preserving the flexibility and adaptability to changing circumstances that are essential.

Question: Do you regard the guidelines as objective and comprehensive?

Reply: To answer this question, I think we need to take the guidelines and follow them point by point. We had no specific case, circumstances or company in mind when we drew them up. They are the result of teamwork by highly qualified people who took into consideration all the circumstances, all the incidents or accidents, which were known to them. I do not think that anyone can single out any specific circumstances or any specific item which conditioned their work. We have certainly not succeeded in exhausting the subject, but our aim was to face the problem in as objective and comprehensive a way as we possibly could.

Question: Has the ICC not disregarded a number of the real problems?

Reply: I realize that the aim of this Group is to find remedies in order to avoid abuses. I thought it would be useful to underline that, even in this function, one should pay attention to the tremendous differences which exist in different circumstances. To find one set of remedies to solve and prevent such a variety of problems is extremely difficult. It has been said that the guidelines of ICC deal mostly with investments and disregard major issues such as transfer of technology, management policy and management arrangements. The guidelines of ICC do not pretend to have exhausted the problem. I quite agree that these other aspects are almost as important as investment and that they have been too briefly dealt with in the document we submitted. I can say that we are decidedly in favour of a transparent, harmonized administration through which one could see what is actually happening and could act if there are some illegal or irregular procedures. In my capacity as President of the Confederation of Italian Industry and also of the Association of Limited Companies in Italy, I have been insisting for years on having some law or regulation on limited companies which would give transparency to budgets, results and tax payments.

Question: What prospect is there of drafting an enforceable rule of international law on this matter?

Reply: I am still convinced that it will be practically impossible to cover the whole matter by a systematic set of laws. But I never spoke of laws, I spoke of rules. I only say that, if you feel that you are able to do so, you will have all my admiration, which does not mean that I am convinced that you will succeed. And particularly, I deny most emphatically that there is any possibility nowadays, in the present setup of international relationships, of enforcing such rules or laws even if you were able to produce them.

Question: Has not the ICC over-emphasized the positive aspects of multinational corporations?

Reply: It is true that in my presentation I gave more emphasis to the positive aspects than the negative ones. But since the negative aspects were already so strongly emphasized, I felt that somebody here should recall that the multinational corporations also have positive aspects. If their effects had been purely negative, they would not have grown as they have. But this does not mean that we in ICC are not aware of what the negative aspects are. I was brief because these aspects were already dealt with in the ECOSOC document.

I spoke of the rational, social and economic utilization of local resources because there is certainly a risk that through the multinational corporations some local human and natural resources may not be utilized in the best interests of the host country. I mentioned the risk of the creation of oligopolies through the acquisition of dominant positions. These are all negative aspects which show the necessity of harmonizing the institutional scope of private enterprise with the policy of the host country; but this is a matter not of counterposition or opposition, but of harmonization. If you feel as I do that, in spite of all their negative aspects, multinational companies are something which cannot be destroyed or cannot disappear from the scene of the world without great damage to Governments and consumers, then we must harmonize. And when I said that one thing we have to keep in mind is the consequences that the activity of multinational companies can have, apart from their economic, scientific and technological contribution, I mentioned expressly the cultural implications of powerful communications media, which means information and public opinion.

Question: Would the multinational corporations co-operate on disclosure?

Reply: My response would depend very much on the form and the content of the questions to be put to these multinational companies. In a private company there are delicate matters which are certainly most relevant for the operation of the company. In so far as the private concern exists and is accepted, since it must take the risk of its operation you cannot ask anything from it which would be prejudicial to its operation. But I think that an enquiry which recognized this limit, especially in the atmosphere which is now building up in the field of multinational corporations, could have a good prospect of success and could be supported by ICC. But the feeling has been built up that they are in the dock, that they have to respond only for misbehaviour. This of course puts them in a defensive posture. If one could overcome this and give the impression that they are not guilty until proved so, that they are not being accused simply because they are multinational, then I think you could obtain their co-operation and certainly the co-operation of ICC.

Jacques MARCHANDISE
Directeur Délégué
Pechiney-Ugine-Kuhlman

Summary of written and oral statement

The Pechiney Ugine Kuhlman Group was constituted in 1972 by the merger of two companies, Pechiney and Ugine Kuhlman, whose operations in the metallurgical and chemical sectors complemented each other. It comprises a holding company, not carrying on any industrial activity, acting as leader and co-ordinator of a number of specialized affiliates, grouped by operation into seven branches: steels and titanium, aluminium, chemicals, mining and electrometallurgy, nuclear power and new techniques, special products, and copper processing. The branches are remarkable for their unity and each company for its reasonable human scale.

The consolidated turnover of the Group in 1972 was 13,425 million francs, which makes it the second largest private company in France, the 29th largest in Europe and the 62nd in the world. It employs 97,000 persons in its various establishments. It has industrial installations outside France in Greece, the Netherlands, Spain, Great Britain, Italy, the Federal Republic of Germany, Belgium, Guinea, Cameroon, Madagascar, the United States, India, Argentina, Australia, Japan and Korea.

The international activities of Pechiney Ugine Kuhlman in aluminium

Among the Group's various activities, the most important relate to aluminium: 38 per cent of the consolidated turnover in 1972. Our statement, therefore, will concentrate particularly on this branch. In this field, Pechiney Ugine Kuhlman was led to turn its attention abroad by three compelling factors: the need to ensure an optimal size which would enable the enterprise to subsist and develop in a trade which is widely internationalized and highly competitive; the need to adapt to the new dimensions of the market characteristics; the need to secure a reliable supply of raw materials, in this case bauxite, and sources of electric power.

These factors led to the working out of new programmes and the establishment of subsidiaries abroad. These subsidiaries have always made it a rule to act as good citizens, respecting the laws of the countries in which they operate, scrupulously paying all charges and taxes, and abstaining completely from any interference in domestic politics. In the host countries, our companies are subject to many constraints: the application of varying social legislation, the obligation to recruit and train local personnel, and in many cases very stringent financial regulations.

All investments carry with them the risk of devaluation and unforeseen obstacles to the repatriation of profits. In actual fact, an enterprise which invests abroad has only very limited powers in the face of the host country's array of regulatory weapons, extending in extreme cases as far as nationalization.

After a brief account of the Group's policy in Black Africa in the field of aluminium, which constitutes an excellent example of the installation of a new industry in a developing country, the statement concludes that the growth of its world-wide activities is closely linked to the development of international trade: the need to face competition carries with it the necessity of growing world-wide at the same rate as the competition. And competition is the only way in which an industrial company can carry out its fundamental responsibilities to its employees, its clients and its shareholders, and towards its social and political environment.

Internationalization has allowed Pechiney Ugine Kuhlman to launch new products throughout the world and to carry the cost of vital research to encourage and exploit new scientific and technological discoveries. Having increased its competitive potential, the Group has been able to instal itself near the markets, an essential condition for retaining them in this day and age. It has a flexible logistical policy which enables it to cope with the industrial and commercial practices of the most difficult countries. It may have made a profit out of them, but it is equally convinced that the countries in which it has carried out its operations have profited as well.

Comments on the points raised in the report on multinational corporations

The proposals contained in the document of the United Nations Department of Economic and Social Affairs, in the chapter headed "Towards a Programme of Action", are discussed below.

Programme to be undertaken by MNCs and trade unions

The conversations started in November 1973 at Geneva should be continued.

Programme to be undertaken in home countries

Home country authorities should refrain from any interference in the domestic affairs of host countries. The proposal to establish machinery to examine the activities of MNCs abroad in respect of the export of capital and technology is interesting but seems likely to meet with opposition from most Governments.

The publication of information and figures on the MNCs could without disadvantage be made compulsory.

Host country programme

The establishment in each host country of a national co-ordinating body to orient the activities of foreign corporations is desirable.

Regional programmes

The drawing up of regional programmes for harmonizing the treatment of MNCs within a group of countries should be envisaged within the framework of problems of economic integration within regional organizations.

As regards governmental assistance in particular, it would be advisable if countries refrained from offering different "incentives" to investors in the same industry.

International programmes

The creation of an international forum and an information centre merits consideration, provided that these bodies do not become anti-MNC grand juries.

In the field of technical assistance, the establishment of a multi-disciplinary body of staff which would organize teams of specialists to assist the developing countries in their negotiations with the MNCs might appear to public opinion merely a proliferation of international civil servants. It is likely, moreover, that their research into "errors and omissions" would be directed primarily against the MNCs and that their activities would create additional impediments to operations which, in the developing countries, carry with them increasing industrial risks.

The harmonization of national economic policies, in the tax field in particular, should be pursued. We should all like uniform tax regulations, provided they were fair and took into account the legitimate interests of all the parties involved.

The criticism of transfer pricing is largely theoretical because of the steadily increasing technical competence of national fiscal administrations.

Harmonization of restrictive business practices, like that of measures to encourage foreign investment, seems in the light of recent experience to be difficult to bring about. On the other hand, the harmonization of environmental regulations seems more feasible.

The drafting and adoption of a "code of conduct" are both highly desirable. Its provisions should be sufficiently flexible and realistic to make it adaptable to the various kinds of MNC.

A supra-national machinery which would imply the total internationalization of MNCs should not be considered.

Oral statement at Geneva

It must be recognized, in principle, that the problems raised by MNCs are quite separate from the issue of economic development through industrial expansion or the condemnation of growth. Nor can there be any question of challenging the need for profit.

In the context of France, Pechiney Ugine Kuhlman is a major business concern. The company's capital is subscribed by the public (25 million shares - 250,000 shareholders). It has complete freedom of action and receives neither instructions nor assistance from the State.

The Group's investments abroad have taken many very different forms, from the sale of technology (aluminium or special steels) to the provision of turn-key factories, through joint financial investment and technical help. The form of investment differs according to whether developed or developing countries are concerned. In the first, very detailed legislation is encountered, often protectionist in character - though not of course acknowledged as such,- and long standing commercial and industrial practices very different from our own, to all of which we must adapt if the venture is to be successful.

In the developing countries, we must operate pragmatically. The effect of an enterprise's activity can only be regarded as positive to the extent to which the investor and the host country are equally satisfied.

Three principles are the keys to success in co-operation between States and enterprises:

(a) Competence on the part of the investor.

(b) Knowledge of reciprocal rights and duties, clearly set out in an agreement between the investor and the host country, specifying the objectives, the interests of the parties, and the mutual obligations they are willing to assume.

(c) Respect for certain rules of good conduct, which implies frankness in regard to the aims pursued by both parties; the avoidance of dual blackmail as regards employment and tampering with trade flows for purely political reasons; the duty of keeping both parties informed.

The normal consequence of any business activity is profit. The size and distribution of that profit raises problems at the level of the Governments which participate in it through the levying of taxes, and at the level of the local shareholders, public or private.

As regards the environment, the protection of nature and respect for the country's heritage, customs and traditions are obligatory.

As regards the enterprise's general behaviour, two questions arise:

(a) Activity in fields other than its own business. The intervention of an enterprise should be kept strictly within the bounds of its specific activities: investing in a country to develop a product, paying wages in line with those of the host country, and drawing from its operations a reasonable profit. On the other hand, assuming the right to create abnormally prosperous enclaves in relation to the host country's economy, to engage in agricultural activity, to be responsible for education or housing, constitutes a transfer of responsibility liable to give rise to serious misunderstandings.

(b) Relations with the political regime in power. The only appropriate attitude is to respect the Government in office and regard it as the sole interlocutor. This political neutrality should be accompanied by complete financial neutrality.

In conclusion, we believe that MNCs are a factor in the free circulation of technology and in progress for the people of all countries. In the context of the capitalist society in which we are living, their role can only increase. Their development demands that they should impose on themselves rules of good behaviour.

International control over their activities should be exercised through a search for harmonious economic development in a united world, in which these enterprises will continue to act as engines of growth because of their technical capacities, their flexibility, and their skill in correctly analysing the burdens, the risks, and the development paths of their own activities.

Translated from French

Summary of replies to questions*

Question: You suggested that multinational corporations should conclude agreements with the Governments of host countries, covering their activities and aims and the conditions under which they would operate, so that the two parties could reach an understanding on questions of common interest. Has your company entered into any agreements of this kind, and have they been made public?

Reply: The development of the activities of the group which I represent has been reflected in the conclusion of agreements in many countries. They have always been published in the Official Journal of the country in question. Their contents usually define the aims of the proposed investment, envisage certain guarantees, cover the possible extension of the terms of the contract in given circumstances, and set out the reciprocal rights and duties of the contracting parties. For example, a clause will provide that certain advantages granted by the State will be in effect only for a given period and will lapse automatically if there is no extension of that period. Other provisions may specify the host country's methods of exercising control over the company's economic activities.

The provisions of the agreements may of course vary widely, depending largely on the wishes of the host countries.

Question: What are your views concerning (a) the accounting practices of multinational corporations, and (b) the information which they should supply, on their commercial operations in particular?

Reply: As regards accounting practices, an effort should be made to simplify the procedure and at the same time to see that company accounts

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*Questions were asked by the Chairman and Mr. Deutsch.

are presented in a form which is understandable to people of ordinary intelligence who are not accountants.

On the second point, any information on market conditions would be highly desirable. Apart from information coming from the companies themselves, there are many other sources which could incidentally be used for verification.

Customs statistics provide indications of the value of goods at entry and at the time of export, making it possible to establish average figures. Increasingly, all States possess means of investigating and controlling trade or transfer prices.

Question: Is any international action possible, and if so what direction should it take?

Reply: It would seem that there is already a certain consensus in favour of joint action in the field of taxation. There should be an effort at standardization in other sectors also, for example in respect of anti-trust legislation which differs completely from country to country.

The work of a Group such as this, in which we have been invited to co-operate, would seem to be a good medium for bringing about a better understanding between States and the multinational corporations.

It is hard to imagine fielding a sort of United Nations Economic Emergency Force to prevent future conflicts. The necessary arbitration should be carried out by the appropriate judicial and technical bodies, which, moreover, exist already.

Albertino MASETTI
Secretary
World Federation of Trade Unions

Summary of written and oral statement

The VIIIth World Trade Union Congress, held in October 1973, recently discussed in depth the consequences of the activities of multinational corporations for the economic, social and cultural rights of the peoples, and of the workers in particular, and adopted a Charter containing specific proposals for international action to offset the machinations of the multinational corporations. These points are included in the last part of the document distributed to you. I do not need, therefore, to go over all the arguments dealt with in it, but I shall take this opportunity of underlining a number of topics on which we might have an exchange of views afterwards.

The World Federation of Trade Unions - despite its criticism of a number of points - considers that the study prepared by the Department of Economic and Social Affairs of the United Nations contributes a definition of the essential economic and political aspects of the multinational corporations and their activities, in particular by bringing out that:

"Questions (may arise) ranging from permanent sovereignty over resources to possible conflicts with national priorities and to distortion of consumption patterns and of income distribution";

"(They)may even be used by some Governments as an instrument of foreign policy....(and) contribute to placing countries in interdependent or dependent positions";

"Through their tacit alliance with certain social groups, (multinational corporations) may even be regarded as obstacles to appropriate social and political development";

"It would therefore be helpful if the home countries (would make) a formal renunciation of interference in the internal affairs of host countries".

The World Federation of Trade Unions notes that the privileged relations linking them to the state must be regarded as an essential factor in explaining the rise and development of multinational corporations. In home countries: the level of taxation on profits, the cost of money, the economic importance of the services and subsidies granted by the state to capital. In host countries: often the same favours on the part of the state, but also dependence vis á vis private foreign investment in development policy, and above all, sheltering behind the concept of "political and economic stability", more or less serious limitations on the national economic, social, cultural and trade union rights of the workers.

As far as multinational corporations in relation to the socialist countries are concerned, it is hard to see any raison d'être for bringing up the activities of multinational corporations in the socialist countries in the report. The statement on this matter contradicts the definition given of the multinational corporation, in which in addition to the rest the essential feature is apparently control over assets in two or more countries.

The WFTU would like it to be made quite clear that no multinational corporation controls or manages any enterprise in the territory of the socialist countries. Moreover, the direct or indirect implication that there is a possibility of the exploitation of the workers of the socialist countries by foreign capital, of interference by it in domestic affairs or any influence on social policy, cannot be regarded as correct. It follows that the specific examples of the Soviet Union's commercial agreements with

Occidental Petroleum and Fiat to exploit its natural resources are without validity. The industrial equipment bought from these corporations is the property of the State. Similarly, the use in the summary of the phrase "growing presence of multinational corporations" in respect of the socialist countries cannot be regarded as correct.

In no case can we agree to any limitation on trade union action at the national level through agreements between so-called "multinational trade unions" and the multinational corporations. What the unions, and the WFTU, demand is a guaranteed right to carry on their activities in the enterprise and other places of work and, within the framework of the multinational corporations, the right to engage in international trade union activity and for union representatives to circulate freely among the enterprises of the group, at the national, regional and international level.

Specifically, the unions demand from Governments respect for the basic trade union rights set out in the international conventions of the International Labour Organisation:

The right to international trade union activity, including international affiliation; and

The right to the guarantee by States of conditions permitting the exercise of these rights (the granting of passports, freedom for unions to meet to discuss questions of joint interest).

Hence, it is freedom to meet at the international level and to discuss possible forms of co-ordination of trade union action within multinational corporations that is organized labour's priority claim and an important element in its effective contribution to international action in the field of multinational corporations. Thus, for the unions and for the WFTU, there can be no question of retaining the Report's ambiguous formulation regarding the so-called "multinational trade unions"; on the contrary, there must be a reaffirmation of the need to strengthen trade union action at the country level (whether host or home), in order to create the conditions which will allow freely co-ordinated action by the unions at the international level.

In no case can "participation in decision-making" be identified, as it is in footnote 12 on page 80 of the Report, with the hypothetical participation of union representatives in the boards of directors of large corporations. For the unions and for the WFTU, it is first of all a question of:

Democratizing the management of enterprises, through the extension of trade union rights, with staff representatives and works committees ensuring democratic control over economic, financial and technical options and policies;

Guaranteeing the unions' right to information and consultation in respect of the political and social aspects of agreements between Governments and multinational corporations;

The right to international collective bargaining for workers in enterprises belonging to economic groups operating in different countries or at the level of regional economic groupings, without prejudice to the full exercise of trade union rights at the level of each enterprise and country;

The right to receive, to request and to research objective and verifiable information on the market, and on the enterprise's plans for investment, production, expansion or modernization, together with access to appropriate instruments, particularly as regards information processing, to make this right effective.

In no case can the adoption of an "international code of conduct" be turned into an instrument for legitimizing and supporting the multinational corporations. As far as the unions and the WFTU are concerned, international regulations cannot impose on the unions any limitations on the rights and prerogatives of organized labour and, in particular, no agreement at this level should be allowed to bring into question superior acquired rights or impair the bargaining rights of unions at the level of the individual enterprises in the multinational group.

Albertino MASETTI

Secretary of the WFTU

Summary of replies to questions*

Question: Do the multinational corporations create difficulties for labour unions?

Reply:[1/] The rise of such undertakings has brought new problems, and in that sense new difficulties, for the union movement. The very fact that these enterprises operate on an international scale forces the trade unions to adopt a posture and a structure which differ in part from those traditionally adopted, and to take qualitatively different forms of action at the multinational and international levels. However, the main obstacles encountered by the unions are not these; they are rather the enormous power concentrated in the hands of the multinational corporations and the use that they make of it in their own interest exclusively, encouraged by the total lack of any international standards of conduct and by the generally inadequate nature of national legislations in respect of the discipline to which these enterprises should be subject.

Question: What does the WFTU think about the proposed research and information activities of the United Nations?

Reply:[1/] The WFTU is in favour of it and would like to see systematic action by the United Nations on information and research with a view to alerting public opinion to the serious problems posed by multinational corporations. In this connexion, the WFTU considers that the promotion of a dialogue within the United Nations with the full participation of the non-governmental organizations would undoubtedly be a positive step. However, the primary question to be taken into account in the face of the seriousness of the

* Questions were asked by Messrs. Dunning, Mansholt, Miller, Uri and Somavia.

1/ Reply by Mr. de Angeli.

problem is the requirement that the host countries should exercise full, sovereign and exclusive control over the activities of these enterprises and should require them to comply with their legislation, and to apply and respect internationally recognized trade union rights and privileges. Obviously this does not mean that the WFTU has ceased to advocate the need to introduce specific international standards for the multinational corporations. On the contrary, in the document submitted to your Group there are specific references to the advisability of doing so. For example, the ILO should work in this direction and the full sovereignty of States vis á vis multinational corporations should be internationally recognized.

Question: What are your views on joint ventures between the socialist countries and certain multinational corporations?

Reply:[2] Although it is true that economic co-operation between the socialist and capitalist countries is increasing steadily, it is wrong to speak of the growing role of multinational corporations in the socialist countries. Despite widely varying forms of economic co-operation, none of the negative effects described in the Secretariat report can be attributed to the socialist countries. In those countries, the problem of the non-recognition of labour unions is non-existent. We know that labour unions in these countries enjoy all their rights throughout the production process and in all enterprises whatever their structure. What is more important is that there is no interference in the domestic affairs of the country.

Question: What is the WFTU's opinion on international labour unions vis à vis multinational corporations?

2/ Reply by Mr. Baglai.

Reply:[3/] As far as the international labour movement is concerned, the demand for international unions (trade and inter-trade) precedes the appearance of multinational corporations by several decades. This demand derives from the need to ensure -- with full recognition and respect for the independence and sovereignty of any national union -- fraternal relations, exchange of experience, collaboration, mutual support and solidarity among the national unions of all the world in the interest of the workers represented by each of them. Clearly, at the present time, this demand is increasing because of the importance assumed by the action of workers at the multinational, regional, continental and world levels in defence of their interests.

The WFTU therefore considers the paramount task of the union movement to be the creation of united and effective international unions. However, the notion referred to in the report of a so-called "international trade union" with institutionalized powers of negotiation is something else. The WFTU considers that no national union could agree to institutionalize its own renunciation of any part of the right to decide for itself in full sovereignty on the whole range of problems confronting the workers whom it represents, even if the employer is a multinational corporation. In the opinion of the WFTU, the response of national unions to the real and pressing requirement of arriving among themselves at a systematic exchange of information on the activities of multinationals, on working conditions and on joint bargaining, on the need and the possibility of combining for possible joint bargaining and action, must be sought for in the continuous reinforcement and

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3/ Reply by Mr. Masetti.

development of national unions, and not in a permanent reduction of their functions and their power of negotiation in favour of a so-called multinational union.

The position of the WFTU is based on important practical experience demonstrating that where national unions in a multinational enterprise are strong, they know how to find appropriate ways of co-ordinating among themselves permanently and effectively without resorting to methods which impair the sovereignty of each or all of them.

Question: Does the WFTU in fact support the right to nationalize without compensation?

Reply:[4/] The question of nationalization is never lightly regarded by States. They only decide to nationalize after weighing all the facts, all the advantages and disadvantages of the operation, the profits and other benefits realized by the enterprise in question. After that they decide whether they should proceed to nationalize and whether or not there should be compensation. This is their sovereign right and the WFTU considers that it should be internationally recognized and respected to its fullest extent.

Question: Does the WFTU think that unions should share in the management of enterprises?

Reply:[5/] The opening of the boards of directors of capitalist enterprises to union representatives is dust in the eyes of the workers and an attempt to make the unions responsible for decisions which in important and controversial

4/ Reply by Mr. de Angeli.

5/ Reply by Mr. Masetti.

cases are in one way or another imposed by the owners of enterprises in the light of their exclusive preoccupation with profits. It is not a way whereby workers can influence the decisions of owners regarding the management of enterprises. Universal experience over more than a hundred years shows that the workers of the capitalist countries can exercise an influence on management only through independent union action and pressure. A different matter, however, is the right of unions to be informed of the enterprise's programme and, in particular, to be told in advance of any decisions by the firm in respect of jobs, working conditions and the interests of the workers in general. That is a fair and necessary demand which the WFTU supports, but its practical realization in no way implies the formation of ambiguous structures seeking to integrate unions into the managing bodies of enterprises which are in fact completely dominated by the owners and run in their interest exclusively.

J. S. NYE
Center for International Affairs
Harvard University

Summary of written and oral statement

The nation-State versus the multinational corporation

There are currently some 200 large multinational enterprises or clusters of corporations which operate simultaneously in twenty or more different nations and are joined together by common ownership and management strategy. Some observers believe that by the end of the century, three hundred giant corporations will account for a large majority of world industrial production. The sovereignty of nation-States is alleged to be obsolete, and the multinational corporation has been described as "the most powerful *de facto* political instrumentality of internationalism, of far greater consequence than the United Nations."

Such statements stimulate sceptics to point out that large international corporations have long been present on the world scene. Moreover, despite the fact that the annual value added by each of the top ten multinationals was over $3 billion or greater than the gross national product of some 80 Member States of the United Nations, even weak States can and sometimes have nationalized the local affiliate of a multinational corporation.

To a considerable extent, however, this competitive "either/or" view of the relationship between transnational corporations and nation-States is misleading and generates a false debate. The two types of organization are different both in their goals and their instruments of power. Both can grow stronger simultaneously. Indeed, the growth of the transnational organization can stimulate and enhance the growth of nation-States.

This is not to argue that there are no real conflicts between transnational corporations and nation-States. Quite the contrary. What is new about the modern multinational enterprise and distinguishes it from the large international corporations of earlier centuries is its global management strategy made possible by the technology of modern communications. This means that the decision domains of managers of transnational corporations cut across the national boundaries of both home and host countries. Therein lies a potential for conflict. The most honest corporate manager acting rationally within a transnational perspective is bound to have conflicts of interest with the most reasonable of statesmen whose rationality (and democratic responsibility) is bounded by national frontiers.

Roles in world politics

While the multinational corporation is not a threat to the existence of the nation-State, this does not mean that it has not a significant role in world politics. The traditional "realist" view of world politics assumes that States are the only significant actors, that States act as coherent units, and that military security concerns of States dominate their other concerns.

To varying degrees for different types of States, these assumptions are unrealistic. To the extent that these three assumptions are relaxed, the role of corporations in world politics appears more significant.

For example, it is frequently argued that nuclear technology and changing domestic values have made the use of force a more costly option among the advanced industrial societies. While this is not true for all States (or non-state groups), and while some of the shift reflects the current cycle of détente among the superpowers rather than a linear trend, it nonetheless remains true that there are large areas of interstate politics where force is not a useful instrument. In addition, the goals of many States, both developed and developing, have shifted from territorial possession or domination goals to more economic and welfare-oriented objectives. To the extent that these shifts take place, they represent shifts away from the area of weakness of the corporation (i.e., force) and toward the area where the transnational mobility of the corporation is able to strongly affect States' objectives (i.e., economic welfare).

One can also question the traditional assumptions that coherently organized States are the only significant actors in world politics. This is certainly not true if we broaden our conception of world politics to include transnational systems in which non-governmental actors account for a major portion of activity across State boundaries. While not all transnational systems are economic, a large number are, and multinational corporations are major actors in them. The distributional effects of transnational systems are complex. Take oil for example. Transnational corporations are an important component of the system through which oil-exporting countries extract large transfer payments from consumer countries. But some of the transfer payments come from poor countries (like India), and others go from poor individuals in rich countries to rich individuals in oil-producing countries (from which, among other things, the funds have gone to finance transnational uses of force against rich countries). As States' welfare objectives become more prominent and there is a greater awareness of the ways that transnational systems allocate resources across borders, the political relevance of such systems becomes more apparent to statesmen.

Future trends and the role of international organization

Of some 193 manufacturing firms that operate transnationally and for which data was available, the United Nations Secretariat report found only 1.5 per cent had more than 50 per cent foreign content in the ownership of assets; 9 per cent had more than 50 per cent foreign content in employment; 7 per cent derived half or more of their profits from abroad; and some 14 per cent had half or more of their sales abroad. In other words, few corporations that operate transnationally are predominantly multinational on many dimensions.

The trends in corporate development, however, seem to be toward increased multinationality and autonomy of staff. The preponderant United States source (some 60 per cent of book value of direct foreign investment in the mid-1960s) is slowly being eroded by the more rapid growth rates of European and Japanese direct investment. Technological improvements are continuing to reduce the costs of communications and enhance the corporate capacity to develop global strategies divorced from identification with the interests of any particular country.

While predictions that 300 giant corporations will run the world economy tend to be based on projection of past trends and fail to take into account diseconomies of scale that appear at later stages of product cycles, even smaller multinationals can make crucial allocative decisions that challenge Governments' welfare goals. If we see increased corporate dedomiciling, whether to remote and pleasant tropical islands as some foresee, or simply in the form of shopping among developed States, the willingness of Governments to turn to international agreements and organization may increase. There are already some signs of United States political attitudes toward foreign investment that resemble those of host rather than home states. If, on the other hand, Governments turn to unilateral restrictions to deal with the problems of policy interdependence created by multinationals, this may create such a conflicting maze of regulations that the corporations themselves will drop some of their mistrust of international organization and press for more integovernmental solutions.

Given deep-seated differences among countries, it is not likely that this evolution will ever lead to a strong supranational organization charged with overseeing the activities of multinationals. Many agreements will be of limited scope, both by subject and number of countries. Nonetheless, there are several possible roles for universal intergovernmental organizations.

(a) Information systems

As we stressed earlier, differential access to information, variable identity, and mobility of resources are key assets of multinational corporations in their bargaining with States. Information that improves Governments' information about global corporate activities and Governments' knowledge about mutual alternatives can affect the terms of the bargain. Much of the information will be difficult to obtain and equally difficult to assess. Nonetheless, information can be collected, and its usefulness will be greater the more the staff develops a reputation for fair-mindedness.

(b) Technical assistance

Not all Governments have the ability to make full use of the information already available to them. Providing experts in this area, as the Secretariat's report suggests, can be an important function. Technical assistance cannot remove all conflicts from the interaction of weak States and foreign corporations, but at least it can help to dispel the mistrust that stems from fear of the unknown, and allow the parties to bargain on the basis of more clearly perceived self-interest.

(c) Operations

If a supranational corporation means a globally chartered multinational enterprise, it is clear that this formally denationalizes the origin but removes none of the real conflicts stemming from the central dilemma of differing decision domains. If one means an intergovernmentally owned enterprise, to exploit the seabed for example, the crucial question is where the seat of management strategy would be within the corporation. The experience of many intergovernmental ventures in high technology have not been encouraging, because political criteria have interfered with management. Perhaps a more fruitful avenue for the seabed would be to explore forms of joint ventures between private multinational enterprises able to provide flexible management strategies and an intergovernmental corporation that would set the broad political parameters within which the management strategies would operate.

(d) Norm creation and adjudication

The prospects of a General Agreement on Multinational Corporations are not very high. While it may be possible to create effective norms among limited numbers of States or norms covering a specific aspect of direct investment, the broader the agreement in numbers or scope the less likely this seems. The problem is not only one of collective action among large number of States. It also stems from the basic political reality that underlies corporation-State bargaining, particularly between rich and poor. When the basic bargain is political and may be obsolescing over time, poor countries might consider it unwise to institutionalize a set of norms or adjudication procedures that represent a stage in which they are relatively less favoured.

These problems do not prevent States at similar levels of development from coming to agreement on certain norms, particularly as the trends described earlier make the origins and challenges posed by direct investment more symmetrical. Nor do these problems prevent all agreements along a North-South dimension. Bilateral agreements are possible. New access agreements which divorce equity from other parts of the package of direct investment may become more prominent (though they will not solve all of the dilemmas posed by differing decision domains). A general affirmation of Calvo clauses by which corporations forego the diplomatic protection of their home States might have a useful effect in reaffirming the political trend toward non-intervention that we described earlier. Where economic conflict is inevitable, perhaps the most important normative agreement is to isolate it from the interstate violence system.

Summary of replies to questions*

Question: What is the possible present effectiveness of an international code of conduct?

Reply: I tend to be somewhat sceptical. Nonetheless, codes of conduct sometimes have an effect in terms of strengthening the hands of weaker Governments. In 1966, when the United States Government tried to press voluntary guidelines on corporations in Canada and elsewhere, the Canadian Government responded with a Code of Conduct of good business behaviour which did have some minor effects in that corporations became somewhat more politically sensitive. So, without expecting too much from codes of good behaviour, I would say that they are not totally useless.

Question: Can agreement be reached now between nations on the harmonization of taxation?

Reply: There are possibilities for limited agreements on taxation. To some extent they already exist bilaterally. Countries at similar levels of development, such as the OECD countries, might find it possible to reach agreement along certain lines.

Question: What are your views on joint ventures in the East-West area?

Reply: This is one of the most intriguing aspects of the corporation's behaviour, for several reasons. The political significance is probably more important than the economic significance. There are said to be a thousand instances of co-production, licensing and joint venture existing

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* Questions were asked by the Chairman and Messrs. Miller, Mansholt, Uri, Weinberg, Estrany y Gendre and Somavia.

now between Eastern European countries and Western corporations. Many Eastern European countries, Romania, Yugoslavia and Hungary in particular, have found that there were more things involved in the corporate package than technology, and that technology which came in under licensing agreements or turnkey-type arrangements was often not very useful. For high technology industry, such as computers, what was needed was management which could adapt technology to changing situations in global markets. This is an area of extraordinary political importance. It may turn out to be something which has relevance to the problems of less developed countries when they are dealing with the multinational enterprises.

Question: What type of international agreement is possible?

Reply: I think you can get specific and limited agreements, but I do not think they will be very effective if they are global. Putting it another way, more restrictive agreements may be more effective. Take the question of allocation of markets. Should we go for an agreement which prevents the multinational corporations from allocating markets? The trouble with that is that it might well be that a certain degree of allocation of markets is very rational from the corporate global planning point of view and that a restriction on any allocation of markets may deter foreign investment. Rather than a general code prohibiting the allocation of markets, there might be bilateral agreements governing specific cases. That could be a much more effective approach than a general agreement. I am in favour of information and technical assistance. Somebody should be helping countries to write that sort of clause into their agreements. That would be a much greater contribution for the United Nations system to make than merely a general code. In a sense, it would be nice to believe that, as reasonable men, we could arrange a situation in which we could find a harmonized way of re-distributing the world's wealth. But re-distribution of wealth involves conflict as well as harmony of interest. Conflict is going to be natural and perhaps even beneficial. It is more important from the international organization point of view to have a code of conduct which says 'thou shalt not appeal to thy home Government' than to become involved in inter-state conflict where you have interventions and wars. You must allow poor States to use their political power, which is based on force and legitimacy, without having it countered by the power of the large Governments. That seems to me a better procedure toward this goal of trying to get some re-distribution of wealth than a code of corporate conduct alone would be.

Question: How do you view the transnational role of labour?

Reply: If labour responds to the transnational corporation by demanding nationally protective legislation, there is a negative effect on world trade. On the other hand, if the labour unions try to follow the strategy of transnational countervailing power, there may be a net regressive effect on the distribution of world income. The net effects of a trade union following a transnational strategy in pursuing the corporation may have deleterious effects on the global distribution of wealth. It may, in fact, increase the gains for the very small segment of the population which organized labour represents in less developed countries at the cost of their fellow citizens. The problem of the role of labour strikes me as extraordinary difficult. I don't really see how you are going to get any kind of code in this area.

Question: What role should the United Nations play in collecting information and what, in your opinion, is the effect of publicity as a sanction?

Reply: I would like to see the provision of information such that poor countries are able to use their bargaining position more effectively. Would corporations co-operate? I think there is some role for the sanction of publicity, in so far as the United Nations reports and the information system are regarded as fair and honest. If a United Nations Commission becomes, as some United Nations bodies have become, politically biased in procedure, you will very quickly lose the sanction. But, in so far as it maintains a reputation for fair-mindedness, it seems to me the publicity sanction is useful.

Question: What should be done in the case of conflicts between corporations and host Governments? How can these conflicts be isolated?

Reply: The Calvo clause is not a new idea. The prospects for it are improved if there is some symmetry and if the corporation is given some sort of an indication that it will be given national treatment, or treated roughly equally with other national bodies, if it is not to appeal to its home Government. Whether this will work or not seems to me to depend on certain trends that we're seeing in world politics now, which I tried to outline in my paper. It seems to me that the type of country which is the home country for most multinational enterprises, at this stage, is also the type of country which is being most affected by the two trends which I described. One is the growing cost of the use of force and the second is the growing emphasis on welfare goals. So I would argue that the trends are in this direction and that the role of the international organization in proposing a code of conduct which would provide a symmetrical Calvo clause on non-intervention in exchange for equitable treatment might have, at the margin, some beneficial effect. I don't think you can go too much further than that in realistic terms.

Question: What should be done about political interference by multinational corporations in less developed countries?

Reply: The home Government should take a position discouraging this sort of interference. An interesting thing is the effect which the Senate hearings on the ITT case in Chile had in the United States. Publicity is essential. From the United States Government's point of view and from the United States public's point of view, we want much more publicity about this sort of behaviour.

Edith PENROSE
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Summary of written and oral statement

There are, broadly, three types of consideration which lead developing countries to refuse to accept, to restrict the activities of, or to repudiate (by expropriation) multinational corporations. These relate to ideological objections to foreign (or private) enterprises, to fear of their economic or political power, and to their cost.

The first arises from differences of view about the appropriate organization of society and the economy; in particular, to the extent to which private ownership of the means of production is acceptable. Objections refer primarily to the equity component of the "package" of goods and services that direct private investment provides. They are directed towards foreign ownership and control over productive assets and local resources. However, many types of industry require foreign managerial, technical or marketing assistance and arrangements are often made through contracts or joint ventures to obtain such services. In these circumstances, foreigners may have de facto control even of nationalized enterprises whenever the expertise and knowledge they possess gives them the capacity to make decisions beyond the monitoring scope, as it were, of local partners. Nationalization in itself does not necessarily solve the problem of foreign control, but it does eliminate foreign private ownership of the means of production.

The superior knowledge possessed by multinational corporations is one of several elements in the second category of considerations leading some developing countries to restrict or reject multinational corporations -- the simple fear of their knowledge, size and wealth from which, it is assumed, great economic power is obtained. It is often pointed out, for example, that the total sales, or total assets, of some multinational corporations exceed the national income, wealth, or whatever, of many developing countries, and that this disparity in size inevitably puts a developing country at a severe disadvantage in dealing with such corporations. As a general proposition, this type of argument does not impress me. I do not see how the fact that the value of the world-wide sales of an international firm exceeds the national income of, say, Tanzania -- to take one of the poorest among the developing countries -- impairs in any way the ability of the Government of Tanzania to reject its application to set up a subsidiary in the country, to restrict and regulate its activities if it is set up, or to expropriate an existing subsidiary. There is much misplaced fear that differences in "size" are in themselves peculiarly dangerous.

Nevertheless, multinational corporations often have a greater knowledge than the Governments of developing countries usually do of the industry, of technology, of the ways of finance and markets, of commercial and legal practices, and may also enjoy easier access to institutions and individuals on an international scale. Such advantages may well give the corporations a superior bargaining position vis-a-vis developing countries and enable them, at worst, to deceive and defraud their hosts and at best to out-manoeuvre them in bargaining. Thus, the fears of developing countries on this account are not to be dismissed lightly, but it is possible to devise measures to offset, at least in considerable measure, the inherent inequality. Disparities of this kind are not necessarily a question merely of disparities in size.

On the other hand, the financial resources of a multinational corporation, even if they are not particularly large, may be, and clearly in certain cases have been, used in attempts to secure advantages for the corporation, to subvert Government policy and to influence individuals quite apart from and greatly in excess of the well-known methods of securing favours which are more or less customary in some countries.

This type of problem is magnified when multinational corporations can call on their parent Government for assistance in a dispute with the Government of a developing country and the parent Government is willing to apply pressure in such forms as military intervention (once common, now relatively rare), direct trade or financial sanctions unilaterally imposed, the use of influence to persuade international organizations to deny loans or other assistance to offending countries, etc. One question for international discussion is the appropriate role of international organizations in such situations. Suspicions and tensions may be reduced by the formulation of some sort of international code of conduct and the application of appropriate sanctions to deal with violations when discovered.

In the absence of outright corruption of Government officials, political subversion and political intervention from the parent Governments of multinational corporations, the economic "power" of multinational corporations can easily be exaggerated, for the Governments themselves do have power to regulate their internal economic affairs and control the behaviour of businesses within their territories. That there exist possibilities of evasion and limits to the effectiveness of controls does not in principle impair the sovereignty of the Government. For the most part, a Government that is able to find out what is happening and to get adequate advice with respect to appropriate action on the one hand, and is willing to take the required action on the other, is in a strong position to control the activities of multinational corporations. International organizations can help to ensure that the necessary knowledge is available to developing countries; they can do little about their willingness to act.

The superior managerial and technical expertise of foreign firms, which is perhaps the source of the greatest economic growth for the host countries, may in itself be disadvantageous for development in the broadest sense, if we include as an essential characteristic of this development the growth of the capacities of the local people to take responsibility for their own affairs, to make their own decisions, and generally to develop a wide-ranging capability and confidence.

When foreign firms are prominent in the economy a kind of "micro dependence" may emerge because of which the local people, observing that the important business decisions are made by clearly identifiable expatriates, fail to develop confidence in their own ability, and are given little chance to develop this confidence. The managers of foreign firms often seriously underestimate the capacity of local people, especially in the poorer countries, and refuse to give them responsibility partly because along with responsibility must go the right to make mistakes. Mistakes are costly, and understandably parent companies do not like to see the costs of their subsidiaries inflated because of avoidable inefficiency. In this context we are dealing with costs which should be looked on as part of the cost of education in business affairs -- the cost of learning by doing.

This kind of impact of foreign firms in a developing country may justify measures to protect local firms against them. Just as protection of an "infant industry" is widely accepted, even by most otherwise free-trade economists, as an exception to the advantages of free trade, so may protection of "infant firms" be accepted as an exception to the doctrine of "free investment", even by those who are convinced that foreign investment should in general be unrestricted. The poorer the country, the greater may be the adverse impact of a great deal of direct foreign investment. In general, economists seem to argue that the poorer a country and the lower its rate of saving and domestic capital formation, the greater will be the contribution of foreign investment. I am inclined to think that the reverse may be more nearly correct.

In weighing the costs and benefits of the activities of multinational firms already resident in the country, a Government should distinguish carefully between costs that are inherent in the acceptance of foreign investments and avoidable costs due to unacceptable behaviour of the firms. If the costs inherent in the operation are held to be excessive in the light of the benefits gained, a Government may decide to nationalize the relevant operations wholly or in part, but full compensation should be paid. But if the costs are excessive because of the unacceptable behaviour of the corporation itself, special measures may be adopted to eliminate them. If nationalization is the preferred solution a case can be made for taking this behaviour into account when considering the amount of compensation, providing the criteria of acceptable behaviour have been internationally accepted.

A difficult problem arises when a developing country alleges simply that profits have been excessive and capital investment more than adequately "recovered", and that therefore very little, if any, compensation should be paid. Although this kind of argument is clearly unacceptable in the framework of the received economic and legal principles in the developed world, it does not seem unreasonable to many in the developing countries. International consideration of this is surely appropriate.

Proposals

In their discussion of international programmes, the Secretariat in their report quite correctly put much of the emphasis on various ways of providing information. This seems always to be the easiest and most innocuous type of proposal one can make, and its importance is therefore often underestimated. But if the inequality of information and knowledge could be overcome, many of the handicaps of the developing countries in this field would disappear. Hence this could be the most effective type of action that an international organization could take.

The other major proposal emerging from my analysis relates to the importance of a "code" of political and economic conduct. It may not be difficult to get agreement on principles in spite of the fact that one of the chief offenders in this respect is also one of the biggest of world powers, but it may be very difficult to get agreement on such things as the Secretariat's suggestions for a "hearings" procedure, or on the type of sanctions to be accepted in individual cases. I have suggested that if a Government decides to nationalize wholly or in part an affiliate of a multinational corporation it would be internationally acceptable that the compensation payable should take account of any gains the corporations may have made as a result of financial practices in contravention of such a code, and of whatever fines may be deemed appropriate if its political behaviour has been inconsistent with it. In other words, there should be some internationally approved pecuniary risk to multinational corporations if they violate international standards. This need not depend on their own country's acceptance of the standards. Internationally acceptable proposals need not be unanimously agreed.

Summary of replies to questions*

Question: How far can multinational corporations help to reduce the allegedly growing gap between the rich and the poor both between and within countries, to alleviate the growing and serious problem of unemployment (which is partly the result of very high rates of population growth) and in general to provide solutions to the "development problem"?

Reply: Generalizations in this respect are impossible, for much depends on the particular firms, the particular countries in which they are operating, and especially on the policies adopted by their host Governments. The role of multinational corporations and foreign investment generally is often exaggerated, both with respect to benefits and disadvantages. One cannot usefully work with broad generalizations when one considers the problems of specific countries. But the bargaining power of host Governments seems by and large to be increasing. Foreign firms are increasingly having to take account of government policies. As servants of appropriate government policy such firms can provide useful services but when there are conflicts of interest, Governments must know what they want and be willing to take the necessary action. Information and knowledge are essential to the first and a will to act for the second. If host Governments are unduly

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* Questions were asked by the Chairman and Messrs. Uri, Dunning, Mansholt, Miller, Weinberg (consultant), Ivanov, Sadli, and Somavia.

influenced by the pressures of multinational firms or their parent Governments, there is little that outsiders can do about it. Many of the difficulties arise precisely because the Governments of less-developed countries persist in actions which are inappropriate. This is, however, their right, and outside advisers can do no more than give appropriate warnings and provide as much information as possible for them to use in forming policies. This is especially true in the areas of choice of technology, localization, type of product produced, employment, and especially tariff, policies. Most of the ways in which the operations of multinational corporations produce adverse effects are well known, as are the nature of the benefits to be gained. The really difficult problem is to weigh the costs against the benefits, for many of the items on both sides are not quantifiable, including political and social as well as economic considerations. Consequently, a clear specification of its objectives by the Government of each less-developed country is of very great importance.

Question: Can regional groupings help to increase the bargaining power of the less-developed countries and help to reduce dependence on foreign investment?

Reply: In principle, the grouping of a number of small poor countries into larger regional associations should enable them to improve their economic position in a variety of ways and to take better advantage of opportunities, particularly in terms of their bargaining power with external agencies, thus helping to reduce inequalities. In practice, the history of regional associations has been very mixed. One of the chief problems arises from the fact that there are great inequalities among the countries which have joined in most such associations and these give rise to difficulties similar in many respects to those arising between the Third World and the developed countries.

To some extent, undesirable dependence on the industrialized countries can be alleviated by splitting the "package" provided by foreign investment and reducing the ownership element which strengthens foreign control and gives rise to a permanent stream of payments abroad, but continuing to accept technology and other services. As suggested in my paper, however, this is not likely to go very far in solving the problem of "dependence" in view of the superior knowledge of the foreign firms. In any case, one must examine the nature of the adverse effects of dependence very carefully, since some degree of dependence is an unavoidable concomitant of reasonably rapid development.

Question: How far is it desirable to encourage the development of a type of multinational corporation which would invest in less-developed countries, establish enterprises and then turn them over to local interests as rapidly as possible?

Reply: Again, one must stress the difficulties of generalizing. For some countries this may not only be desired by the Governments but also appropriate policy; for others not, partly because much depends on the availability of local resources to substitute for the withdrawing foreign ones and on the alternative uses of these resources.

Question: Do not multinational corporations take advantage of cheap labour in less-developed countries, by failing to pay wages commensurate with productivity?

Reply: Low wages and low productivity are, of course, part of the definition of a poor country, but what is needed are employment opportunities and investments which in the longer run will enable workers to raise their productivity and standards of living. To insist that all foreign (or other) firms should pay money wages near to those in the advanced countries would be disastrous for development. Arguments against the export of technology and capital to poor countries, as well as against the import of goods from them, on the ground that they have "cheap labour", have long been advanced by workers (and employers) in rich countries wishing to protect and raise their own standards of living (and profits) by restricting the competitive opportunities open to poorer countries. Moreover, even if the productivity of workers in foreign firms abundantly supplied with advanced capital equipment is high, it does not follow that it is in the interest of the development of the host country that these workers should accordingly be paid higher wages, thus creating a "labour élite" in the economy. A case can be made instead for taxing heavily the profits of the firms and using the taxes to promote development in other sectors, thereby improving the distribution of income.

Question: Should home countries tax the world-wide profits of their multinational corporations after making allowances for tax payments paid elsewhere, thus removing the attraction to multinational corporations of tax and other incentives often competitively offered to them by less-developed countries?

Reply: First, the definition and measurement of "world-wide profits" would be extremely difficult unless one merely took the figures presented in a consolidated balance sheet, which are usually misleading as a basis for taxation. Second, transfer prices are unavoidable in an integrated organization and there would be a strong incentive for all host countries to raise local taxes on the basis of higher transfer prices for goods exported from their own countries. Before long the "tax credits" thus obtained by multinational corporations would exceed the income tax imposed by the home country. In this situation, the less-developed countries would once again have an incentive to compete to attract foreign investment by reducing their own taxes on the companies. Back to "square one".

José de la PUENTE
Under-Secretary for Economic Affairs
Ministry of Foreign Affairs, Peru

Summary of written and oral statement

For Peru, and for the Andean Group of countries as a whole, the term "multinational corporation" denotes an enterprise in which a number of States participate. Their term for corporations operating beyond their own frontiers is "transnational".

Some members of the Group of Eminent Persons seem to adopt a rather technical approach to the problems created by the rise of the transnatior corporation. Peru regards the question of the impact of such corporations on development and international relations as a moral matter touching upon the innermost values of the developing countries.

There are two phenomena in the world today which are radically changing the structure of the world economy - one, the emergence of new economic powers, making for a much more complex pattern of global relationships, and two, the gradual consolidation of transnational enterprises into bodies whose world-wide operations give them an economic power superior to that of many national Governments. The first may in the long run be favourable to the developing countries, offering them a wider range of possibilities. The second leads to monopoly or oligopoly by these enterprises and reinforces the hegemony of the major powers. If the developing world is to evolve in accordance with its own desires and objectives, it must establish strict rules governing its relationship with the transnational corporations.

The primary purpose of development is to improve the lot of the common man. In the long run, it is the common man who feels the damaging impact of transnational corporations on international relations through the controntations to which they give rise. Not all transnational corporations, of course, are evil. Nevertheless, a code of conduct to govern their operations is essential. Enterprises contravening such a code, for example by interfering in public affairs, must be expelled regardless of any economic advantages they might offer.

As far as Peru is concerned, certain strategic areas of the national economy are reserved for nationals. Foreign investment is welcomed in other areas, however, provided that it is in harmony with the national development plan. Peru is also is favour of intermediate technology, as being more in keeping with national human and capital resources, and of forming relationships with medium-scale enterprises.

The aim of the Andean Group, of which Peru is a founder member, is full economic union by 1980. Some conventional instruments of integration, such as the removal of tariff barriers and the establishment of a common external tariff, are already in effect. The Group has also taken certain specific steps in respect of foreign investment and the transfer of technology. Under the Cartagena Agreement, a standard regime for the treatment of foreign capital has been approved, and regulations adopted for such matters as royalties and licensing fees.

The Group intends to establish sub-regional enterprises, multinational in the true sense, to promote the harmonious and balanced development of the sub-region, with equitable distribution of the benefits of integration and reduction of disparities in the living standards of the different member countries. Sub-regional savings will be channelled into productive sectors able to profit from the expanded sub-regional market and capable of competing in world trade. The capacity of the sub-region to negotiate the purchase of foreign technology will be strengthened and employment opportunities will greatly improve. Foreign investment will be allowed in these sub-regional corporations - upto as much as 40 per cent of their capital - and foreign investors will be given equal treatment with local investors. The Andean Development Corporation, the financial arm of the Group, offers shares which can be purchased by individuals or groups from outside the region.

Peru concurs in the view expressed in the International Development Strategy for the Second United Nations Development Decade that there is a role for the foreign private sector in the growth of developing countries. The difficulties that have ensued from the activities of transnational corporations in the past can be avoided through the adoption of proper controls. However, it is not in favour of investment guarantees which merely lead to confrontations between Governments. The transnational corporations should be encouraged, by the adoption of an international code of conduct under United Nations auspices, to put aside their traditional outlook and adopt new standards which would allow them to use their economic power with a greater sense of social responsibility. Peru is also in favour of the establishment of a centre for research and information on transnational corporations, and a similar centre to provide information and conduct research on the transfer of technology. The Non-Aligned countries, of which Peru is a member, at their meeting in Algiers, adopted a Declaration endorsing the investigation being carried out by the Group of Eminent Persons and pledging to participate in the exchange of information and experience. It is important, however, that all future research should be carried out by genuinely objective and impartial experts.

Summary of replies to questions*

Question: Why allow multinational corporations to enter your countries when they produce such negative effects?

Reply: Not everything is negative about the transnational corporations. It is our responsibility to lay down the ground rules within which they must operate so that they act in our interests and make a real contribution to our development. Only then will their presence be acceptable.

Question: May not the adoption of strict controls turn away investment by transnational corporations? What other options are open for acquiring capital, technology and entrepreneurial skills?

Reply: The Andean Group offers uniform treatment to all foreign capital investment. Some investment may be driven away by these rules but we expect to receive what we need for our development plans. Commodity producing countries are now combining in a way which will enable them to bargain more successfully for the other resources they require.

Question: Since the adoption of Article 24 of the Cartagena Agreement, what has been your experience regarding investment in sectors other than oil?

Reply: Negotiations are being held now with two major automobile-producing multinational corporations within the framework of the Agreement and the sectoral plans of the Group.

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* Questions were asked by Messrs. Miller, Estrany y Gendre and Prebisch (consultant).

Question: Has there been any exception from your ground rules? Have you offered any concessions?

Reply: The Cartagena Agreement provides for exceptions in the case of natural resources, including petroleum. Peru has drawn up a model contract based largely upon the common regime and a number of oil companies have already agreed to it.

Bharat RAM
President, Delhi Cloth Mills

Summary of written and oral statement

The purpose of development is to improve the quality of life. However, it will not be right to correlate the standard of living with the standard of satisfaction. In the industrial society there is a race between man's desires and his capacity to satisfy those desires. This race will never be won. The same problem may arise in developing countries also.

Development cannot ignore the human factor. If in the process of growth the personalities of individuals or nations get frustrated or biased, the very purpose for which development is brought about will lose its meaning.

It is in this context that concern about the operations of multinational corporations must be viewed. These enterprises are not mere agents of change in technology or organization. Unfortunately, the multinationals have projected a wrong image of themselves. While developed countries are better equipped to negotiate with multinationals, the developing countries find the partnership unequal and, for this reason, specific guidelines have become necessary.

It is important, to dispel any misunderstanding, that multinationals should make the terms of agreements widely known. Even the Governments of developing countries should publish the agreements with the multinationals. Greater knowledge itself implies fewer misgivings.

Taking cognizance of the susceptibilities and needs of developing countries, it appears that a more viable and acceptable form of organization for multinationals is joint ventures with national enterprises. The Indian Government has fixed the upper limit for foreign investment at 40 per cent of the equity.

The multinationals also should not create the impression that they are angling for excessive tax concessions among developing countries. They have to fall in line with the wage policy which is adopted by the host countries. The technology they bring in should be adapted to conditions in the host country so as to help employ more labour. Further, the operations of multinationals should be guided by the principle of supplementing national effort rather than pre-empting the manufacture of products by nationals through brand names. This is an important matter because there are a number of instances where the nationals have been able to export their products successfully even while the multinationals have been trying to direct them towards the home market.

There is considerable responsibility on the Governments of the host countries to see that the multinationals play their due role in the development process. The results of planned effort have often been short of expectations because, among other reasons, Governments have not kept their doors open to new ideas in technology, processes, management and organization; nor has sufficient recognition been given to attracting foreign investment and technology at strategic points to give the requisite push to economic development. The policies have been based on *ad hoc* considerations and are neither stable nor clear. Unless this is done, foreign investment will not be forthcoming in the requisite measure. The host countries have the ability to control the multinational corporations and undue apprehension about the operations of multinationals is uncalled for.

Summary of replies to questions*

Question: In what area would an international agreement be helpful to multinational corporations?

Reply: One area where international action is necessary is the field of taxation. The foreign collaborator is not really getting the benefit of the tax concessions that the host country gives, and it is, therefore, the host country's Government which is losing and the collaborator's country's Grovernment that is gaining. To step up the flow of international investment it is extremely important that an international arrangement should be evolved by which the tax benefit given by the host country is effectively received by the collaborators.

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* Questions were asked by the Chairman and Mr. Somavia.

Altiero SPINELLI*

Member of the Commission of European Communities

Summary of oral and written statement

It was a little over a year ago that, realizing the importance of the problems raised by the development of the multinational corporations, I instructed my services to conduct research into the extent to which these problems called for a response at the Community level and the form that this response might take. My concern was shared by many of my colleagues.

In the Spring of 1973, the Commission decided to enlarge the framework of the study being carried out by my services to a group of nine Directors-General, whose deliberations made it possible to draft a series of proposals that were adopted by the Commission on 7 November and have just been submitted to the Council, which is expected to discuss them again before the end of the year.

The Danish Government has also communicated its concern over this matter in a memorandum transmitted to the Commission and the Council in July 1973.

In essence, the proposals submitted by the Commission, which have been communicated to this group in writing are based on the following considerations:

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* Accompanied by Mr. Schlieder, Director General for Competition and Mr. Alban-Hansen, Director General for Financial Institutions and Fiscal Matters.

(1) The Commission considers that the positive economic and social aspects of the development of multinational corporations should be preserved.

(2) It considers, however, that the absence of an appropriate political and social countervailing force sometimes enables these enterprises to exert harmful effects which should be prevented.

(3) It believes that this cannot be done satisfactorily simply by defining a code of conduct not accompanied by sanctions.

(4) It also believes that these problems cannot be solved by the adoption of one or two spectacular isolated measures but must be dealt with through the adoption of a coherent scheme of action covering the main aspects.

(5) It considers that the Community constitutes a sufficiently coherent framework to allow an appropriate legal system to be put into effect.

(6) It is, however, aware that action by the Community will only be fully effective to the extent to which similar regulations are applied at the international level, and it intends to work towards this within the context of the work of the United Nations.

(7) Essentially, the aim of the Commission is to prevent certain

abuses which could occur and which would not necessarily be the responsibility of the multinational corporations alone. Its proposals for action, therefore, apply uniformly to national, international, Community and extra-Community individuals and corporations that might be responsible for such abuses.

(8) The Commission's proposals have been grouped round seven main problems: protection of the general interest, protection of the interests of workers, maintenance of competition, methods of re-acquisition, equality of treatment in host countries, protection of developing countries, and improvement of information.

(9) As regards protection of the general interest, the proposals are designed to combat tax evasion, to ensure supplies and to deal with monetary speculation, assistance from public authorities, and the protection of shareholders and third parties.

(10) In order to ensure the protection of workers, the Commission proposes, in addition to encouraging the constitution of a trade union countervailing power, which it regards as essential, a series of measures designed to guarantee employment, acquired rights, and the participation of workers in the management of corporations.

(11) As regards international co-operation in the sector of competition, the Commission endorses the suggestions of UNCTAD in its report of 26 April 1973.

(12) The Commission also proposes Community regulations and machinery for co-operative action by national bodies charged with the control of stock exchange operations, in order to establish a body of rules governing the reacquisition of corporations.

(13) Equality of the conditions in which the different States accept foreign investment should be sought within the framework of the OECD and the United Nations.

(14) The Commission also proposes a number of measures that would allow the Community to ensure that investments by Community-based multinational corporations conform closely to the economic and social objectives of the developing countries.

(15) Lastly, the Commission shares the view of the United Nations concerning the need to improve the information available on the international activities of corporations.

(16) The implementation of the measures proposed by the Commission will take several years. Some of these proposals have already been submitted to the Council for study, but working out some of the others, particularly those on taxation, stock-holding and other monetary matters, will require several more meetings of experts.

(17) The Commission's proposals do not exhaust the subject and a number of problems remain unsolved at present. The Commission considers, however, that it is necessary to take such action as can be taken already without awaiting a solution to all the problems that arise. It considers its present proposals, therefore, as a point of departure for action to be started now and supplemented later, and not as a final result.

Summary of replies to questions*

<u>Question</u>: What should the division of labour be between nation-States and international organizations in dealing with multinational corporations?

<u>Reply</u>: Taking the Community as an example, it seems clear that although the Community envisages unification and the building of supranational structures this is not an appropriate objective for most of the developing countries, most of which are still seeking their own national identity. A solution can only be found at the world level through inter-governmental agreements.

But given the differences of opinion among the member countries of the United Nations on this point, this will hardly be possible, and we should perhaps seek more limited solutions such as, for example, the establishment of an international commission at the world level with certain supervisory powers.

<u>Question</u>: How can the influence of the parent company be reduced in host countries?

<u>Reply</u>: With regard to investment in developing countries, arrangements for transferring the ownership of industrial installations might perhaps meet a growing need. Nationalization pure and simple does not seem to be an adequate instrument, but a gradual increase of local participation in capital and management might be a possible solution. The Commission should certainly not force such a policy, but in carrying out its policies in regard to developing countries it should bear their specific problem in in mind, in order to prevent possible crises. A long-term agreement of this kind would have advantages over the present situation where nationalization cannot be excluded in certain countries. Such agreements, and investment

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* Questions were asked by the Chairman and Messrs. Uri, Weinberg, Schaffner, Mansholt, Miller, Dunning, Deutsch and Ivanov.

guarantees, will tend to encourage investment in the developing countries where it is most needed and where it is now in relative decline.

Also, the Commission might envisage bilateral agreements between the Community and the developing countries containing rules of conduct for the multinational corporations recognized by both home and host countries. Here the Community will work to ensure that investments made by Community-based multinational corporations conform strictly to the economic and social objectives of the host country. The Commission might stipulate that the investor must obey certain standards, for example those of the ILO, before obtaining investment guarantees.

If the Community unilaterally applies decisions which will affect the ability of Community-based multinational corporations to compete, it will do everything possible to enter into negotiations with other industrial countries, so as to subject their enterprises to the same obligations.

In any event, a recommendation by the Commission to this effect might have a positive effect on the other centres exporting capital for industrial investment in the developing countries.

Question: What is your position on the allocation of markets?

Reply: 1/ As regards market allocation between companies, I consider that the practices of export cartels should be analysed more closely, so that nation-States may be induced to make the details of these cartels' activities public. Moreover, even if the idea of establishing a world anti-trust bureau seems premature, a start should be made by analysing restrictive business practices, export restrictions imposed on license-holders by the owner of the license, and other practices aimed at parcelling out the world according to the interests of a few enterprises.

1/ Reply by Mr. Schlieder.

There is already co-operation between the Commission's anti-trust bureau and its United States counterpart, in respect of an exchange of views aimed at improving information on this matter. It is in the field of licenses particularly that there should be some harmonization between the interested parties.

Question: What is the Community's position in the social field?

Reply:[2] The social policy proposed by the Commission in respect of workers' participation in management decisions and workers' welfare has not yet met with unanimous agreement on the part of the member countries. A discussion has started, however, and some member States are amending their positions, which gives grounds for hoping that a solution will be found eventually.

If the parent company has its headquarters in a third country, the problems of information and workers' participation are very complex, and no solution has as yet been found. As regards relations between parent companies and affiliates, the Commission envisages the creation of a group law, providing for the legal responsibility of the parent company for all decisions taken which affect the activity of the affiliates.

Question: Do multinational corporations seek to affect Community policy?

Reply: Generally speaking, the multinational corporations respect Community policy. Naturally, they take advantage of all the legal gaps in pursuit of their own objectives, but there is no direct intervention of

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2/ Reply by Mr. Nicolai.

a political nature; for example, in the field of regional policy the multinational corporations pose no obstacle. The Commission is not envisaging any special legislation for multinational corporations, but a legal system must be set up to protect the Community from effects which can be caused by national and multinational enterprises.

Question: What role have the multinational corporations played in currency speculation?

Reply: There is no real evidence as to the role the multinational corporations may have played, but even if they have not engaged in speculation any more than other economic agents, their liquidity is such that they can create problems of monetary stability. A solution can only be found in the framework of monetary union.

Question: What is the position in respect of company law?

Reply: The Commission has made certain proposals for bringing national legislations closer together, in the sense of creating legal possibilities for facilitating the development of enterprises within the Community. When the time comes, the Commission will be ready to participate actively in the work within the United Nations.

Co-ordination of the policies of the industrialized countries might solve some of the problems posed by multinational corporations. Any progress in the matter, however, will depend on the future atmosphere.

If it is good, there is every chance that a policy of co-operation and openness at the international level will succeed. The situation is different if countries have to apply restrictive policies in that case it is unlikely that any solution can be found to these complicated problems.

Gerd TACKE
Former President, Siemens A.G.

Summary of written and oral statement

Evaluation of the United Nations study Multinational Corporations in World Development supports the view that factual substance for evaluating the stance of the so-called multinational corporation is still lacking. Moreover, in the face of floods of publications and informative materials, the real and intrinsic problems of the so-called multinational corporation have become slurred and hazy. In particular, not enough attention is paid to the prevailing structural differences between individual multinational corporations, especially with regard to their activity sectors, such as manufacturing or processing. Generalized statements in this context are therefore of little value and would only lead to one-sided preconceptions. The theme of my statement is not dealt with in theory, but rather from a practical point of view, based on several decades of experience in direct investments abroad, initially as head of our world-wide foreign operations and later as President and Chief Executive Officer of Siemens AG.

The oligopolistic label of the typical multinational corporation would, in my opinion, require specific proof. I am inclined to believe that such association is plainly wrong. Figures for Siemens AG, with its more than 300,000 employees world-wide, indicate that this organization does not maintain oligopolistic positions in individual national markets. It would therefore be wrong to conclude that a company's size alone makes for real market power. The assertion that the motive for "going multinational" is rooted in the endeavour to safeguard oligopolistic positions is a gross oversimplification, or even falsification. With regard to Siemens, in particular, it should be noted that a substantial number of manufacturing plants in foreign countries were established at the express request of the Governments of the countries in question. While the world-wide upsurge in demand is a vital factor for corporate growth, it must at the same time be recognized that local industries, where they existed, were frequently not in a position to meet this demand. Another element of growth, especially for European companies with limited home markets, was the necessity of increasing sales volumes abroad, in order not to lose ground to United States industrial giants. This applies especially to the high volume of research and development expenses, and to plant and equipment for large-scale production.

In many, if not most discussions, the nations in which the multinationl corporations are active are referred to as "host countries", while the multinational corporation is labeled a "guest". In this way, the assumption emerges that a company with its home base in, say, Germany, is and remains a "guest" in any other country - for example, India - where it is industrially active. This characterization of the relationship between the multinational corporation and the countries in which its operations are located I consider erroneous and misleading.

I should also like to protest vigorously against the unwarranted interpretation of incidents of questionable conduct on the part of some multinational corporations in order to defame all other multinational corporations by ascribing to them similar mentalities and business practices.

One of the most important tasks of multinational corporations is their contribution to technology transfer. This type of transfer must be seen in a broad context, inasmuch as not only technical, technological, manufacturing and organizational knowledge and know-how must be taken into account, but also the transfer of specific modes ofconceptualization and behaviour. The transfer process often requires many years until the knowledge and skill of employees in the respective host country have attained a level where they can guarantee the quality standard of the parent company. The contention is that there is no substitute for this broad-based industrial transfer of technology.

The fear of technological dependence held by many developing countries is quite understandable, especially in view of the fact that research and development is often predominantly concentrated in the parent organization. It is contended that this circumstance is not related to an "egoistic policy" on the part of the multinational corporation, but rather it is dictated by factual necessities, especially in areas with high innovation velocity. It is further contended that decentralized research and development in such areas would be initially very expensive and uneconomical and, in many cases, simply impossible, because many countries lack the necessary prerequisites, notably the availability of trained experts and proximity to major manufacturing facilities. Experience gained at Siemens shows that international decentralization of research and development can only be realized in part and gradually in a step-by-step progression. This type of decentralization is actively pursued by the company and has, in part, been effectuated.

In the United Nations' study it is suggested that the foreign production of multinational corporations is higher than foreign trade. But direct investment is precisely the means whereby still prevailing barriers to foreign trade, such as shortages of foreign currency or customs duties, are overcome and further contributions made to the growth of the national product of many countries, since the plants erected as a result of direct investment also make a decisive contribution to the export trade of the host countries. The report's finding that "intra-corporation transactions in trade" limit free market operations would appear to be equally problematic. The experience of multinational corporations in this area shows that, just like "free market operations", these transactions are oriented - and must be oriented - on such world-wide economic factors as prices, costs, and facility locations.

As regards the multinational corporations' short-term manoeuverability (such as production transfers, or profit transfers for tax purposes) the reality bears less resemblance to theory than might be supposed. Capital expenditures - especially in the area of plant and equipment - are long-term investments; it is impossible for them to be implemented on the basis of short-range speculation. For multi-product concerns with decentralized pricing policies, inter-country earnings transactions are for all practical purposes ruled out by the "technical" difficulties inherent in the number of persons and countries involved in pricing policy and the strong position of local companies with a high degree of independence.

The accusation of currency speculation has, to be sure, been variously raised, but never substantiated. Siemens, for example, has indulged in no currency speculation, but it has - to the extent permissible under present laws and regulations - made an effort to secure its operations against possible currency risks. Nevertheless, each of the several upvaluations of the German mark resulted in losses running into the umpteen millions of DM.

It has become fashionable today to call into question the effectiveness of international competition. The fact remains, however, that as a result of the increasing international integration of markets - as in the context of the large European free trade area, and the appreciable global reduction of customs duties - the intensity of international competition has steadily heightened. There is a clear tendency to allocate foreign direct investment increasingly to the manufacturing and processing industries. Oligopolistic or monopolistic market situations, in the manufacturing and processing industries, occur only as rare exceptions.

The often cited "power differences between Governments and multinational corporations" are not in conformity with the facts. The Governments of all less developed countries, including small nations, have today at their disposal systems for the regulation and control of foreign investment, as well as the possibility of instituting any sanctions which might prove necessary. In virtually every case, Siemens has found it possible to iron out rarely arising differences of opinion before an actual clash was generated. But it should not go unmentioned that the foreign investor is often confronted with demands which cannot be technically, economically, or reasonably met.

With respect to the action programme proposed in the United Nations study, we offer the following remarks:

First, so far as concerns the often rapidly changing political realities or economic policies of various countries, certain "basic guarantees" for foreign investment within an international framework of bilateral or multilateral agreements would seem to be desirable. Participation by National Development Institutes in investment projects is advantageous by reason of the flexibility and practical awareness which often characterizes such bodies.

As regards measures on the part of international authorities, a detailed examination of the usefulness of the United Nations' proposed "discussion forum" would be a welcome move. Such topics as a code of behaviour for multinational corporations, similar to the ICC Guidelines, outlining recommendations for investors and for the Governments of host and parent countries, might be dealt with in such a forum. In view of the complexities associated with widely differing conditions, such a "code" could hardly aspire to be more than a set of recommendations.

The co-ordination of national policies concerning taxation of earnings for foreign subsidiaries, incentive measures for foreign investment, etc., backed by the United Nations, would be a desirable initiative. However, such co-ordination can only be applied to conditions forming a general framework, and must be based primarily on the needs of definite regional areas. Whether the stronger negotiating position which will hopefully be secured in this manner for individual nations in their dealings with multinational corporations is in fact necessary, or, more importantly, beneficial for host countries remains in question.

It would seem that the chief contribution towards a better problem-solving approach in this area must lie in the intensification of direct co-operation between multinational corporations and Governments (or other partners) in different countries, since the individual case is usually rooted in complex and sensitive interrelationships. International authorities can only offer flanking support, inasmuch as first-hand knowledge of the practical aspects is unavailable to them.

Entrepreneurial activity across national borders presupposes above all a high degree of professional acumen and open-mindedness. I therefore have no doubt that the multinational corporations have correctly read the signs of the times. This means that the interests of the host countries must always be taken into consideration in decision-making, that steady earnings for subsidiaries must be an expressed goal of corporate policy, that responsible heads of subsidiaries must participate as partners in all decisions affecting the corporation, that the parent company's entire wealth of experience must be placed at the disposal of the subsidiaries, and that - once reliable earning power has been demonstrated - indigenous capital must be employed in fostering a climate of shared responsibility. Appropriately trained and qualified local perconnel should be integrated into the subsidiaries' top management echelons. The parent company's transfer of know-how should be made accessible to the subsidiaries in its totality, i.e., including such areas as social policy, personnel training, and post-experience education, as well as environmental protection and on-the-job safety.

Finally, there should be continued guarantees that multinational corporation activities, which in principle enjoy universal endorsement, do not ultimately become mired in an increasingly dense network of controls and direct intervention. In this area, as in the sector of foreign aid in general, the threat of "overadministration" out of all proportion to its own effective results should not be disregarded. Such a development would lead to a situation in which an ever greater portion of a company's time and manpower resources would be tied up in unproductive activities, necessarily impeding the fulfilment of its true tasks... to the detriment of the social and economic advancement of the world.

Summary of replies to questions*

Question: Should agreements between multinational corporations and their host countries remain secret or should the terms of (signed) agreements be made public?

Reply: I am convinced that secrecy after such agreements are concluded is bad. In many countries, such agreements are controlled by the Government and most of the important parts of the agreement are published in the official papers anyway. We usually, when we have made agreements, especially about joint ventures, call in a press conference shortly after the agreement and the essential terms of the agreement are published. So I am very much in favour of being transparent. One of the reasons why suspicion has sometimes arisen, I would say, incidentally only, is the fact that the multinationals have not cared too much about the publication of details, which are generally very harmless. You don't need to conceal them. So I am of the opinion that the publicity should be enlarged. To what degree depends on the individual case. I am a little afraid that a general world-wide rule to publish the complete text of the agreements, which often are as thick as the United Nations Report, would not be practicable. You can't publish them as a whole, but the essentials should be available to interested parties. This is my opinion, and I acted accordingly.

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* Questions were asked by the Chairman and Messrs. Browaldh, Estrany y Gendre and Somavia.

Question: No multinational corporation should prevent its subsidiaries from exporting. Do you object to this proposition?

Reply: I believe that the factor of restricting the export possibilities of subsidiary companies has almost disappeared. In our company it never existed. We don't restrict exports of our subsidiary companies. I shall give you some figures: exports from our German group to the rest of the world last year was 3.376 billion marks. The exports of the subsidiary companies to the Federal Republic of Germany and to other countries amount already to about 600 million marks. For instance, we exported cables from India to Germany. We exported low-tension switch-gear from India to Ceylon and to Indonesia. This is what I called in my paper the "interlinkage".

According to the situation of the middle European industrial nations- which does not necessarily apply to the picture in the United States - the tendency shows a considerable increase in the exports of subsidiaries. Subsidiary companies are growing at a higher rate than exports from Germany. So, in the long run, we will have much more intensive inter-exchange between the various countries, which I'm convinced is of mutual advantage. I entirely agree that such restrictions should not be put into the agreements. By the way, they would often not work anyhow.

Question: If a corporation is not a guest but a permanent resident, then -

in the case of any dispute between a corporation and a Government - there can be no question of taking this matter to a forum which is not a national, domestic or municipal forum, but an international one. How do you respond to this proposition?

Reply: I do think there are two forms of possible conflict. One form of conflict, for instance, is such that it could touch our Indian companies or joint ventures. If conflicts were to arise between the Indian Government and those companies, I think that the Indian law should be applied without any hesitation and restriction. But there is a different form of conflict, which can for instance, arise from the fact that Siemens in Germany owns shares of companies in India, or from the fact that Siemens in Germany gives licences to Indian companies or joint ventures. Or, the other way around, 28 per cent of the capital of the Siemens parent company in Germany is in the hands of foreigners. Disputes could arise which would not be restricted to the jurisdiction within the boundaries of, say, India or Germany, but the nature of which would in fact be transnational. Conflicts of that kind could arise between the interests of Siemens in Germany and, for instance, Indian authorities, owing to the fact that there are agreements between Siemens in Germany and Indian companies and joint ventures. Then, of course, I believe that in such cases some international body or international court should decide. I hope I made my point clear: the two different forms of conflict which may arise - I'm happy to say they have never arisen during my career, but let us assume they will arise - have to be clearly distinguished. They are very often confused and therefore there is a mix-up of opinions.

Please, let me add a few general remarks. I have the feeling that for some years now there has been - in the national as well as in the international sphere - a steadily growing tendency towards more and more control of big private companies especially. Sometimes, I have the impression that rather often one tries to compensate for the lack of knowledge and understanding of certain phenomena by measures of control. In some cases, those who are controlling do not really understand the things they are supposed to control. I wonder if this is the right way to do things. Personally, I would prefer to do it the other way round: begin with more efforts to come to a better understanding of such phenomena as the multinational corporation, and this not in a purely academic or theoretical sense. Then, afterwards, there should come reflection on what measures might be necessary. This process of better understanding can be furthered by more realistic and co-operative attitudes on both sides - by corporations and by Governments. Furthermore, I would consider it a false method to cling to the rather few examples of bad behaviour by multinational corporations - to the black sheep - rather than observing the broad reality of the many corporations which try to give their best for the common benefit of the countries in which they are active.

I should like to add a final remark: the world of modern economic life means dynamic changes of technology and markets as well as a permanent keen international competition. This process cannot always produce results which are, in every detail, ideal for everybody. Naturally, as human beings also, the leaders of corporations sometimes make mistakes. I have the feeling that, rather often, some people outside the world of corporations have lost sight of the fact that such limits exist. They produce extremely perfect models which, by necessity, rather often lead to negative results if they are used as a basis for judging the behaviour of corporations. I am convinced that such models would bring equally bad results if applied, for instance, to the behaviour of Governments.

Albert A. THORNBROUGH
President, Massey-Ferguson Ltd.

Summary of written and oral statement

Forces which fuel the multinational corporation are not new. Since the Second World War, Governments have co-operated to encourage international trade and, in so doing, they have also created conditions favouring international investment. The rapid extension of multinational enterprise since the War has brought to light certain conflicts already extant in most national economies. International investment, world trade and emphasis on economic growth are all inextricably involved.

What we now see is a struggle for sovereignty over the multinational corporation. Issues and accusations abound, some of which will be settled; others will be with us beyond the foreseeable future.

Issues

1. Technology

There seems to be general agreement that the multinational corporation is an efficient transmitter of technology but there are criticisms about what technology is transferred and about where research is undertaken. We have witnessed attempts to transfer less sophisticated designs to developing countries, but with no great success. Both the competitive process and national pride are major factors in moving product demand quickly to the highest relevant technology. As for royalties, no one desires to pay them, but often it is the least costly way of obtaining technology. A combination of very low rates, either through competition or local Government insistence, and withholding taxes on those royalties, can create a situation close to indirect confiscation. Lack of local research is not simply a matter of training, which can be handled over a period of time; it is also a matter of cost effectiveness. The higher the technology, usually the greater the cost. Frequently there is simply insufficient local revenue to absorb local costs. A compromise may sometimes be achieved by assigning selected product parentage for development to different centres.

2. Monetary system

Multinational enterprise utilizes the international monetary system, but multinationals are not responsible for creating recent monetary crises. Mr. Bernstein has already placed this question in proper perspective.

3. Employment

In many developing countries, there is concern that new projects should be labour-intensive to reduce high levels of unemployment. However, while in some instances labour-intensive methods can be more economic, there are limits because manufacturing even on a restricted scale requires capital equipment.

4. Taxation

In the past, taxation has presented both opportunities and disadvantages. We have regarded advantages in host countries as windfalls and have not made long-term commitments dependent on their continuance. Since the ever-varying jungle of national tax laws is one of the most complex problems confronting multinational operations, greater co-operation amongst Governments would be most welcome.

5. Transfer prices

There is great suspicion regarding transfer prices, but much of it is misplaced. In a fully-integrated multinational corporation with a high degree of component interchange, transfer pricing is complex. Host countries can, however, take measures precluding unreasonable transfer of profit or business from one country to another.

6. Sovereignty - extra-territoriality

Attempts by home or host Governments to impose their own laws or values on other Governments via multinational enterprises, is not only improper but also dangerous. Non-governmental efforts should be regarded in the same light.

7. Sovereignty - Foreign investment

Foreign companies investing abroad are criticized for remote decision-making, the employment of non-nationals in the host country at high salaries, intrusion into national affairs, adverse effect on the balance of payments, non-observance of Government policies and so on. Yet the multinational corporation obviously cannot thrive in a hostile environment. We have established certain ground rules for ourselves, not only for the ways in which we shall observe local national wishes, but also regarding the facilities which we expect the host country to extend in the development of local activities. We also make the training of local staff, dealers and customers a priority in every country where we operate.

Canada, our home country, is unique in that it is a developed country with an unusually high degree of foreign ownership. Concern for the balancing of benefits has resulted in legislation which provides for the review of proposed foreign investment to be certain that the benefits are significant. In this manner, Canada exercises its sovereignty.

8. Sovereignty - Power of multinationals

It is easy to overlook the fact that most multinationals, although large in aggregate, are relatively small in each national sector. Also overlooked is the power of Governments to exercise full control within their borders. There have, however, been examples of resistance by certain corporations against undertaking activities desired locally but not specifically required by law. Multinational corporations do possess importance, but their power cannot match that of the sovereign State if it chooses to exercise it.

9. Sovereignty - International control

A suggestion has been made for an international agency to control multinational corporations, not only to meet economic goals of individual countries, but also to fulfil other socio-cultural needs. However, results of international co-operation thus far have not been so markedly successful that one can reasonably expect Governments to surrender the required degree of sovereignty.

Actions

Formal international agreement

The United Nations document suggests certain international actions which appear impossible to implement in the foreseeable future. Long-term implications of such proposals should be clearly identified and costed.

Voluntary co-operation

(a) Research and information

More research and communication of relevant information is required, since lack of knowledge and misinformation create mistrust.

(b) International dialogue

Much more can be done by many different groups, whether trade, professional, functional or teaching, to discuss and thereby lower the temperature of emotive issues (e.g., as is done by the Industry Co-operative Programme of the Food and Agriculture Organization).

(c) National Programmes

Within the sovereignty of each country much can be done to harmonize national regulations with those of other countries (e.g., taxation).

(d) Multinational corporations and host countries

A United Nations group to assist developing countries in negotiating with multinational corporations has been suggested. Our experience, however, is that developing countries already have negotiators who are highly informed not only about their own countries but also about what has happened elsewhere.

(e) Rules of conduct

Efforts should be made to establish rules fairly applicable to all parties concerned, including Governments. I do not agree with those who reject a code as being useless, unless backed by strong international authority. The mere promulgation of a code would have a strong moral force. If, along the way, a general agreement on international investment can be achieved, we would support it no less than we do the General Agreement on Tariffs and Trade.

In conclusion, if I have appeared to reject a number of suggested actions, it is on the basis of emphasizing what is practicable. Quick solutions, even if possible, should be rigorously costed, both for the short and long-term. Today's solutions could be tomorrow's problems.

Summary of replies to questions*

Question: What mistakes have multinational corporations made in the past in developing countries?

Reply: In the past there was a tendency for multinational companies to try too readily to meet and implement the expectations of the developing countries. Experience has shown that there must be a realistic approach as to what can be achieved in a reasonable period of time, particularly where there is little secondary industry available. The same lesson could be applied to the action programmes to be developed by the United Nations group. Where a number of nationalities and cultures are involved, shorter term objectives and programmes which have a possibility of attainment should be established.

Question: What difficulties do multinational corporations such as Massey-Ferguson encounter with regard to taxation?

Reply: In the case of Canada's proposed way of handling foreign accrual property income, Massey-Ferguson had an obligation to make known the possible adverse impact of the law since it placed an uncompetitive and undue burden upon the company. The situation is not, however, comparable to that in a developing country where a multinational corporation has made an investment. The headquarters of some multinational enterprises can be moved readily, since they do not involve major fixed assets.

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* Questions were asked by Messrs. Somavia , Deutsch, Weinberg and Uri.

Detlev F. VAGTS
Law School, Harvard University

Summary of written and oral statement

Coming to the problem of the multinational corporation as a lawyer and not an economist or business theorist, I shall not linger over descriptions of that creature, leaving that to the Secretariat's excellent Multinational Corporations in World Development. I shall proceed directly to the task of, first, identifying the problems presented by the multinational corporation and, second, suggesting ways in which it could be more effectively controlled either by the nation-States affected or by some international agency presently existing or to be created.

There emerges from the report a sense that the threat people find in the multinational enterprise is not so much apprehension of a specific type of abuse as a fear of an overhanging, uncurbed potential power. That power may be exaggerated, particularly in terms of economic force being translated into political influence. There is also an understandable tendency to use the multinational enterprise as a scapegoat, because it is large, foreign and mysterious, even when it is simply carrying out the imperatives of impersonal economic forces. Still, the amount of power so concentrated is great. It can be wielded wisely or unwisely, selfishly or unselfishly. It can be made felt in very different ways: by not establishing a plant in country X, by moving one from X to Y, by juggling currencies, by withholding technical data, etc. The effects may be felt by many who had no voice in the decision. That much power, it is increasingly agreed, cannot be left in private hands unconstrained by any of the types of accountability that have been devised by the world's political systems to limit Governments.

Can individual nation-States handle this situation? In a number of ways national regulation seems to be approaching the limits of its effectiveness. In many countries there is a shortage of general technical and business sophistication and of specific knowledge of the multinational corporations involved. Others, of course, have the power and skill to press hard against their corporate counterparts. Elsewhere the country has inadequate bargaining power as compared with a corporation that is prepared to go somewhere else. In various ways national attempts to regulate the multinational corporation run up against the danger that they will arouse counter-reactions from other countries. Past quarrels about the extraterritorial application of anti-trust laws or east-west trade rules show that nation-States resent fiercely other countries' attempts to control conduct which takes place within their borders. As nations become more and more interdependent it becomes less and less possible to set limits to one nation's "jurisdiction" that will not render it incapable of dealing with problems that affect it vitally. Finally, there is the danger that some countries will use their power and influence over the multinational corporation in ways that are not good for other countries or for the international economy. There is, for example, some likelihood that the United States will try to call its multinationals home. It may try to curb the outflow of technology "made in America", penalize firms that try to take advantage of lower wage rates elsewhere or countervail foreign incentive programmes. This withdrawal might be quite harmful to the countries that have adjusted to the efficiencies which they provide.

Thus one is compelled to turn one's attention to the international level. In thinking about the possibilities of adding an international component, one must try to be bold and imaginative but at the same time one must seek not to overstep the bounds of what is possible at the present. The mood of nations today seems to be a somewhat separatist one, with each country jealous of its fading capacity to control its own economic future without reference to the interests of others. While this is particularly true across the line between the developed and the developing countries, there are signs of stress even in transatlantic relations. Thus initial steps, at least, must be careful and modest. One sees little utility in trying to set up an agency that would regulate sectors of the activity of multinationals that have already been confided to other agencies. Thus while GATT and IMF may have their problems, I see no utility in establishing a new agency to deal with the trade or currency problems of multinationals alone.

One starts at the first level of possible international action -- the informational. It would be very useful to many countries that deal with multinationals to have specific, reliable and current data about them. I see numerous signs that opinion is reaching the point where widespread acceptance of this idea is materializing. Even the corporations see that it is not to their advantage to have large aspects of their activities concealed in ignorance and paranoia. It might be possible to build certain other functions on to an agency basically charged with the function of gathering information, putting it into a uniform, comprehensible format and then disseminating it. It might for example, make available to Governments engaged in negotiations with multinationals experts with access to the available knowledge in the area in question -- as on a smaller scale is privately done by Harvard's Development Advisory Service. A word of warning, however. Much of the data that is sought is not simply factual data. Take transfer prices as an example. There is no "true" transfer price for unique components with no outside market price, unless there is a "just price" as a medieval theologian would understand it. No amount of cost figures or other facts will simply allow such a price to emerge as a fact. While uniform if arbitrary rules can narrow the gap, agreement on such matters will not be easy.

The next step onward would be towards a dispute resolving agency. Here I fear that I do not have a great deal of optimism. One notes the uniform refusal of Latin American states to accede to the convention establishing the International Centre for the Settlement of Investment Disputes. Countries are simply not willing yet to surrender so much autonomy even with respect to contracts they have signed. A more modest approach might be a mediation or conciliation service that could offer its neutral "good offices" when a Government came to grips with a multinational corporation. It is too early in the day to start developing substantive international rules as to what constitutes acceptable behaviour between corporation and State. It is, however, perhaps not too early to start developing some principles as to what constitutes negotiation in good faith as required by American legislation governing labour-management bargaining. Certain tactics might be outlawed as being too contemptuous of the other side's position — unwillingness to provide data, to hear and respond to the other side's position, etc.

Finally, there are one or two sectors in which regulation of the multinational corporation might be pushed a bit farther than mere information gathering, without getting in the way of other attempts at international control. One of these is anti-trust which is naturally closely linked with multinational corporations and their positions of market power. Another is taxation which confronts in a peculiar way the generally prosperous, flexible, tightly financially controlled international enterprise. It should not interfere unduly with current efforts in these areas to have a new institution that focused on the multinational's involvement with them.

It follows from the above that the time has not come for a general substantive international attempt to govern the multinational enterprise whether by chartering, regulation or otherwise. Neither the degree of agreement nor the technology required are at hand.

Summary of replies to questions*

Question: Do you find contradications in the arguments of statesmen and multinationals about whether the multinational corporation is a single legal entity of an international character or a group of entities each one having local national character?

Reply: The state of legal thinking is certainly contradictory. Recent factual studies of the multinational enterprise show that it is basically a single centrally-controlled economic entity. The law, however, provides no international status for it. Corporate managers and their counsel have established legal structures consisting of a parent, subsidiaries and affiliates, each created under some national law. At times they assert that this creation is basically international (or at least not local), as when they try to make an international law question out of a dispute with a host Government over expropriation or contract cancellation. At other times they insist on being separate entities, entitled to the same privileges as locally-owned corporations, entitled to file separate tax returns and to deal with each other as if at arms' length. Governments are not so very much more consistent. They sometimes insist that the local incorporation of the subsidiary takes a dispute entirely out of the international sphere — a

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* Questions were asked by the Chairman and Mr. Dunning.

variant of the Calvo Doctrine. At other times they deny special advantages to such entities, on the basis of their foreign control, even where the same company if native-owned would be entitled to them. And recently, a case from Argentina (Carlos Calvo's fatherland) has held that a multinational enterprise (Deltec International) is so much a unity that every part is responsible for the debts of every other area. The United States attempts to control trade by foreign-organized subsidiaries of United States firms as if they were, in effect, United States citizens, but treats them as foreign in not allowing or requiring them to file consolidated tax returns as one entity. As yet there is no symmetry here, but I see a movement towards the realism of a single entity concept.

Question: Would you agree that multinationals are basically showing that existing national policies are not equipped to deal with the international economic environment and that the emphasis should be on organizing our political-legal systems so that multinationals behave in a way that will better promote world economic welfare?

Reply: One could organize a world economy in three ways: (1) leave it to the "invisible hand" as nineteenth-century British economists preferred, (2) let each country try to maximize its own benefits, or (3) try both to maximize international economic production and make its distribution more just. Few are now ready to return to the invisible hand. However, as I have stated, national regulation is not doing very well. We are only at the beginning of an attempt to puzzle out what effective international regulation would look like. Certainly some regulation would be more facilitating--giving more stability and freedom to the conditions of currency and goods transfers. But mere facilitation would leave untouched some serious problems of bias against the interests of less developed host countries.

Question: Would you comment on the relationship of measures taken by multinationals to protect themselves against host Government action and the likelihood that such actions will be taken?

Reply: At this point of time it is very hard to know what a multinational should do to forestall Government action. Before Chile, it was thought that the wise moves were to enter into joint ventures with local partners, private or governmental, and to behave as much like a good citizen (employer, customer or supplier) as possible. It is certainly true, however, that attempts to get one's investment and profit out by quick and ruthless exploitation will garner a better harvest. However, it is not clear now that any precaution will help to stave off the day when the Government will seek to re-negotiate the arrangements it made fairly recently. One cannot say that the approach of United States firms with their attempts to tie matters up in precise legalistic contracts is more or less promising than the more relaxed style of other countries-- both approaches have had their setbacks. It seems that efforts will now focus on efforts to tie in to the arrangement a wide variety of competitors, lenders, etc. so that the international consequences to the host country will be most unwelcome.

Constantine V. VAITSOS
Director, Technology Policy Group
Junta del Acuerdo de Cartagena

Summary of written and oral statement

I was asked to address myself to two issues related to the operations of the multinational corporations: (a) technology and (b) transfer pricing. In discussing them I was basically concerned with the implications for the development process in host developing countries:

Technology

The MNCs have demonstrated special capabilities in bringing together diverse elements of technological and managerial knowledge, in translating them into commercially viable activities and in constituting one of the major vehicles for utilizing such knowledge internationally. Nevertheless, the specific interests of the MNCs, their modes of operation and the form they take can have significant retarding effects for developing countries in terms of technology and in other areas imposing critical constraints on their development efforts.

1. Inappropriateness of products. The MNCs have primarily specialized in catering to the needs of high income consumers and developed products that do not meet the needs or financial possibilities of the majority of the population in the Third World. Until now these companies have indicated that they are not interested in or that they are not equipped to enter areas such as elementary health requirements, nutrition, low income housing, etc. This lack of interest stems essentially from the fact that social benefits in these fields exceed and are not reflected in terms of private profitability. The lack of capability in meeting such basic human needs is related to the complexity of diverse social organizations, cultural orientations and other problems of a heterogeneous nature inherent in economic backwardness. These factors create situations which are not subject to standardization or uniform consumption patterns which norm of behaviour is explicitly or implicitly implied in many of the activities of the MNCs.

To a great extent, the efforts necessary to satisfy the needs of the majority of the population in developing countries are outside the activities of the MNCs. Rather, they are the subject of policies and efforts by the Governments and other economic actors at the national level. International assistance and commitment are needed, but they have to come through channels other than those offered by the MNC.

2. Inappropriateness of technology. The technology developed and employed by the MNCs in their international operations stems from research and development activities in the industrialized world and is concentrated mainly in the home countries of such firms. As a result of (a) the high absolute savings levels of high income countries, (b) their accumulated capital stock, (c) relatively high labour costs and (d) large scale production of goods and services, technological development has been directed toward increasingly capital-biased production processes.

There appear to be three types of international action which need to be undertaken in this area: (a) The dedication of additional resources from the international community, through channels other than the MNCs, to undertake research and development activities within developing countries on problems directly related to factor availability and the product needs of the Third World; (b) the development of legal/policy mechanisms or guidelines requiring the MNCs to undertake more of their research and development operations within the developing countries; and (c) the development of mechanisms which allow and encourage access to alternative sources of supply of technology other than from the MNCs.

3. Bargaining and the technology market. A critical characteristic of knowledge is that its use does not in itself reduce its availability. As a result, in the market for knowledge, prices are primarily, if not exclusively, established on the basis of the relative bargaining power of the actors and large gaps exist between the cost considerations of buyers and sellers.

The degree of bargaining power depends, among other factors, on the availability of information, on awareness of what one is exchanging, and on expertise in bargaining techniques, financial strength, tolerance to bribery among the negotiating actors, etc. It also depends on the availability of alternative opportunities, which in turn is related to market structure and performance, legal (e.g., patents) or commercial (e.g., diverse forms of barriers of entry) restrictions, etc. On both grounds (information and power, and market structure), developing countries generally find themselves in a relatively weak position.

Diverse forms of national and international action are needed in this area. These include: (a) training of negotiating personnel, (b) enhancement of information on market opportunities, (c) disclosure requirements for firms, (d) establishment of registration, evaluation, negotiation and control mechanisms, (e) legislation as well as policies on explicit and implicit restrictive business practices, etc. The substance, origin, timing and form of execution of such actions are of critical importance.

4. Packaged sales of technology. The majority of licensing arrangements for technology acquisition in developing countries involve the packaged sale of diverse technological elements as well as other inputs such as intermediate products, equipment, etc., all of which constitute parts of the multiple operations of MNCs. This results in two important negative effects which are even more serious than the direct costs of monopoly considerations treated above.

First, many of the technological elements acquired are never understood or assimilated by the receiving country since they are undifferentiated within a package of tied components of knowledge and other inputs. They thus lead to "pseudo-transfers" of know-how. Secondly, the acquisition of tied-in components of know-how implies that the host country will forego the development of many skills that are not proprietary or particular to the MNC and some of which could be available to or developed by the Third World.

Overcoming such problems demands, in addition to policies limiting restrictive business practices, increasing the availability of information about the distinct components of the technological package. At the national level, preferential treatment needs to be given to certain national production factors as their applicability can be multiple and can include external economies far larger than the areas of specialization of the MNCs.

5. Patent systems. The present system of patents is a decidely negative factor for the over-all interests of developing nations. Patents registered in such countries are practically in their entirety foreign-owned, and also concentrated in the hands of a relatively small number of MNCs. Of greater importance is the fact that most of the patented processes or products (above 90 per cent or 95 per cent) are never directly utilized or "worked" in the patent-granting developing countries. Instead, patents serve basically as a licensing instrument for imports controlled by the patent holders and as an impediment to the flow of technology and capital from non-patent holders.

Corrective measures necessitate a complete reformulation of existing patent laws and patent systems whose origins date back to the last century. It is ironic that certain multinational entities which to date have been the major institutional agents for preserving and promoting the principles and effects of the existing patent system are presently gaining greater formal acceptance within the international community.

Transfer pricing

During the last decade or so, an increasingly significant phenomenon has been occurring in international economic relations as a result of the operations of the MNCs. This refers to the growing share of interaffiliate exchanges of goods and services in the total volume of trade.

The absence of arms-length relations in such intra-company exchanges and the over-all control that can be exercised by the parent firm reduces the operational importance of explicit restrictive business practices and, in certain cases, of explicit international cartel agreements. Furthermore, the prices for the internationally and intra-firm traded goods and services are not subject to direct market forces. Instead such prices are based on internal MNC policies and preferences, within certain limits set in some cases by Government regulations.

Structural conditions in developing countries are such that, on the average, foreign subsidiaries will tend to overprice their imports from their affiliates in the rest of the world or underprice their exports to them. Certain sectoral exceptions exist, as in the case of the petroleum industry, due to the "depletion allowance" in tax laws of developed countries or due to large country tax differentials (i.e. tax havens) in certain developing nations.

Recent research in diverse developing countries in Latin America and Africa has substantiated the importance of pricing policies in inter-affiliate trade as a mechanism for effective income remission.

National and international policies that need to be enacted include: (a) requirements for disclosure practices by firms, (b) enactment and enforcement of regulatory procedures similar to those of certain developed countries (e.g., the United States), (c) information on prices for standardized products, and (d) re-evaluation of tax systems involving the allocation of payments in view of the highly concentrated overhead of the MNCs in their home countries.

Summary of replies to questions *

Question: What is the incidence of transfer pricing and the considerations that affect it?

Reply: Recently published statistics indicate that about one-third of the United States external trade (both exports and imports) in manufacturing products is undertaken between affiliates of United States based MNCs. The equivalent figure for the United Kingdom is around 25 per cent. For developing countries and at a more disaggregated sectoral level the exchange of goods and services among foreign controlled affiliates often reaches the level of 80 per cent or more of the host countries' trade in the respective areas. Hence, the pricing of such goods and services becomes of vital importance.

Company policies on transfer pricing are not subject to traditional cost considerations and direct market competition but are conditioned by other elements which include: (a) Minimization of global tax payments by registering higher revenues (not necessarily profits) in the countries where the MNCs concentrate their overhead and other expenses. (The issue here does not involve tax differentials but the absolute tax rates themselves. It applies if the revenues of a firm, before transfer-pricing receipts from its affiliates, are not enough to cover the costs that it incurs). (b) Increase of tariff protection and internal price levels for goods produced locally and reduction of tariff payments for goods

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* Questions were asked by the Chairman and Messrs. Miller, Dunning and Uri.

imported from foreign located affiliates. (c) Reduction of political risks and pressures from host Governments by reducing declared profitability. (d) Hedging against changes in currency values. (e) Minimization of global tax payments through price adjustments depending on effective corporate tax differentials and differences in income reporting techniques.

The factors that affect pricing are so numerous and diverse that no simple rules can be applied to the subject.

Question: What are the employment effects of the MNCs?

Reply: The United Nations report *Multinational Corporations in World Development* concluded that, in general, foreign direct investments have a positive effect on employment in developing countries. No empirical or other analysis is presented in the report in support of such a proposition. Evidence on the subject appears inconclusive, indicating important differences among sectors. Part of the evidence in certain sectors suggests negative direct employment effects.

In the extractive sector, foreign-owned as well as national firms participating in large-scale activities employ highly capital-intensive processes. Technological change in this sector has been labour displacing. The major employment effects accrue here indirectly, through the use of government revenues from such activities. The impact that the MNCs have had on government conduct or even on the type of governments present in their host countries is thus of crucial importance.

In the import-substituting manufacturing sector, the types of products selected by foreign firms and the technology used lead to direct labour utilization which is generally much smaller per unit of capital employed than the sectoral average rate. Yet the capital intensity is not as high as in the extractive sector. In the manufacturing sector, technological change often means labour displacement even under expanding activities. Nationally-owned firms producing the same type of products do not necessarily behave differently and in some cases they have been noted for using less labour.

In the export-promoting manufacturing sector, the MNCs offer labour intensive techniques. Yet, in the majority of the cases, the type of labour sought and used is highly unskilled, is offered minimal training opportunities and is remunerated at low levels. Such activities often have limited linkages with the rest of the economy of the host country. Rather they are directly integrated and dependent on the operations of the MNCs, leading to what has been called a "shallow development process".

Question: What are the growth effects of the MNCs?

Reply: The MNCs have been presented as major promoters of growth in their host countries. Yet, in the manufacturing sector, particularly in areas that involve import-substituting activities, the subject is open to debate whether the MNCs promote growth, or the size and growth of the markets of countries attract them to undertake investments. There are various reasons why the growth contribution of the MNCs in such activities in developing countries might be limited and in some cases negative: (a) Their activities are highly capital intensive, which in turn implies relatively reduced payments to local labour and usage of local scarce capital resources and payments for capital imported from abroad. (b) Governments in the host developing countries offer high tariff and other protection, often negotiated and induced by the foreign investors. This in turn, apart from direct income losses from returns to foreign factors of production generated from tariffs, implies distorting effects for the rest of the economy. (c) The transfer pricing pursued by foreign firms on goods and services exchanged with their affiliates can be, and often has been, used to remit returns abroad avoiding the payment of taxes to the host Governments.

A recently published UNCTAD study on 159 foreign firms in six developing countries indicated that, on a fairly reasonable set of assumptions, nearly 40 per cent of the firms had negative effects on (social) income. Another 30 per cent indicated that they had a positive effect that was less than 10 per cent of the firms' sales.

In the extractive sector, the income generated, particularly government revenues, has been highly significant. Yet, as many developing countries are realizing, such benefits can also accrue through alternative ownership or production structures.

The MNCs undoubtedly have certain important comparative advantages, particularly in the area of productive knowledge, marketing outlets and access to resources at the international level. Several of these inputs, when of interest to the Third World, could be purchased outside the foreign direct investment model. In the cases where foreign direct investments take place and have a positive effect for the local economy, host countries can negotiate their terms with the MNCs to increase the formers' growth performance.

Gustavo VOLLMER
President, Central El Palma S.A.

Summary of written and oral statement

While it is apparent from the available statistics that multinational corporations are more active in the developed countries, this paper refers chiefly to their role in developing countries with particular emphasis on Latin America.

The importance of the problem of the multinational corporations and their capacity to influence development is particularly acute because in many parts of the world there exists what could be called a veritable obsession with development.

While it is evident that the multinational corporation as it is known is not a perfect institution, and that it causes distortions in host countries, it is also true that today, and until something better comes along, the multinational corporation is the best instrument available for the developing countries to obtain the technical know-how, the expertise and the capital with which to develop their natural resources, and thus obtain the wherewithal to raise the wellbeing of their citizens to the level to which they legitimately aspire.

Given this premise, and acknowledging that the presence of the multinational corporations often creates problems of a social, political or economic nature, every effort should be made to eliminate the sources of friction which give rise to these problems. An indispensable step in this direction is to establish clear ground rules for the treatment of foreign capital in developing countries.

On example of such a scheme is Decision 24 of the Cartagena Agreement which incorporates rules for treatment of foreign capital in an over-all plan for development in an expanded market. While one may view these regulations as onerous, the over-all achievement is meritorious because the foreign investor at least knows what he is up against and can cut his cloth accordingly. A reasonable degree of stability is more important to the serious multinational corporation than a highly favourable initial treatment which may be subject to unpleasant surprises in the future.

However, the most important provisions of Decision 24 are too rigid and lack the realism necessary to attract sufficient foreign investment and simultaneously attain the Andean Pact goals. The member countries are aware that foreign investment is indispensable to meet the goals of their development plans and that the literal application of Resolution 24 in every case might not only not attract new foreign capital but might actually provoke disinvestment.

The chances of establishing effective global controls of the multinationals are doubtful. Country to country differences are so great, and the inherent need for each nation to formulate its own policies is so strong, that a common system of regulations could produce as many conflicts as it seeks to prevent. Regional agreements can be functional and a real step forward, but world-wide regulations, except in highly specialized cases, are difficult to foresee in the near future.

Before the ground rules for foreign capital can be established on a basis which will satisfy both the developing country and the multinational corporation, it is necessary to determine the objectives of each. It is relatively easy to attempt to define the fundamental objectives of the multinational corporation as we know it today. First of all, like any private enterprise, it attempts to maximize its profits and, secondly, it wants to have full liberty to transfer its financial, managerial and technological resources across national borders.

The fundamental objectives of the developing countries are more difficult to define because value judgements enter into their determination. For example, in today's Latin America, the criterion that there exists an economic, political, and even cultural dependence ("dependencia") vis-à-vis developed countries is an important leit-motiv which determines the attitude toward the multinational corporations. It is evident that the countries want to achieve a high rate of development while avoiding "dependencia" with respect to the large industrial nations where most multinationals are based. Simultaneously with this rejection of "dependencia", the countries desire the contribution of the multinational corporations in financial, managerial and technological resources as well as access to the markets of the developed countries. These objectives must be compatible if development is to proceed under conditions satisfactory to the country and to the multinational corporations. In the usually employed terms, the objectives must also be "realistic".

The difficulty encountered is that what is "realistic" depends on value judgements which are as real to them as computerized bookkeeping to the multinational corporation. The fabric of a society creates realities from ideas and from myths tempered by the culture of the people. The concept of "dependencia" is one of these realities which cannot be ignored when we deal with multinational corporations, because their size and the extra-territorial character of the decision-making process are often viewed as a threat to the economic independence of a host country. The developing country has felt that its bargaining power is small compared to that of the international giants and a few decades ago this perception was generally accurate. Nevertheless, under today's conditions of shortages of most raw materials of nearly every type and the present balanced power structure of the world, it is clear that developing countries should no longer be unduly concerned about "dependencia".

Under these new circumstances, the developing nations are facing a dilemma. They must choose between the first alternative, which is slower development resulting from restricting foreign participation in order to avoid the real and imagined risks of "dependencia", and the second which is to participate in the growing interdependence of today's world economic relations and thus obtain a more rapid rate of development.

One of the premises of many developing countries in their attitude toward existing multinational corporations and foreign investment in their territories is that foreign participation should be limited in growth or not permitted to grow at all. This idea has its origins in the criteria of "dependencia" and is a serious deterrent to development. The ability of a developing country to absorb foreign investment without danger to its economy, traditions and culture is not a static quantity nor is it a precisely calculable percentage of the total investment in that country. As an economy expands, as the living standard is raised and culture is strengthened, the developing economy reaches a higher level of sophistication and its "digestive capacity" for foreign investment increases exponentially. To ignore this fact and maintain restrictive limits on foreign capital investment can choke off the development process.

Referring once more to the multinational company, it is evident that it is here to stay, but now is the time for it to evaluate its goals and improve its beheviour, and hence its image, so that it may evolve into a more effective force for development and at the same time meet its own objectives.

One of the most important changes that the multinational corporations could make to improve their image in developing countries would be to seek active local partners in their operations. The intimate knowledge of local conditions, customs, people and "realities" is as important to the long-term success of an operation in a developing country as is technical know-how. Multinational corporations should seek every opportunity to become an integral part of the community in which they operate.

In closing it should be pointed out that the concept of private enterprise is under attack all over the world, and that many of the objections to multinational corporations stem from this fact. One should not be fooled into believing that once certain changes have been made in multinationals, and it is strongly felt they should be made, the pressure will disappear, since the presence of the pressure is a first step, the second being to attack and finally try to eliminate all private enterprise, foreign and national.

The result of this action, if successful, will be the loss of political and economic freedom with the corresponding effect on the people of the world.

Summary of replies to questions *

Question: Should multinational corporations in Latin America be granted still more privileges?

Reply: I do not advocate that foreign capital should be given more privileges than domestic capital. I made two references to this matter: one rather critical of foreign capital coming into developing countries and taking over participation in branches of business that are already satisfactorily served by domestic enterprises. Thus, a number of smaller domestic entrepreneurs have disappeared because of the advantages enjoyed by the large corporation in management, in technology, availability of capital, and marketing techniques. I also refer to some of the conditions that are proposed for the participation of foreign capital in the Andean Pact, specifically in Resolution 24, and I state that although I think this is a good framework, and that we should try to set out clear rules of the game, they should be reviewed and that the machinery of the Andean Pact provides a possibility of doing so.

In another part of my statement, I take the position that foreign owners should not be compelled to fade out their participation in the countries of the area. The reason for this is that I believe that the process of development is a process of adding and not of subtraction. I feel that if businesses already established by foreign corporations are compelled to sell out a very substantial amount of their holding, it means that new domestic capital is

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* Asked by Mr. Ivanov.

going to be channeled into taking over business opportunities that already exist and are rendering a service. Thus, I feel that this clause instead of helping development might really be a step back, and that is why I also said that I feel that local participation should be offered by giving foreign investors an opportunity to participate, if they have the will and the capacity to do so, but I would not make it mandatory because I think that the resources are limited, and if we channel them either in the direction of buying out an already existing operation or participating in a business in which they are not interested, this capital is not going to be put to the best use.

G.A. WAGNER
President, Royal Dutch Petroleum Company

Summary of written and oral statement

There are a number of positive factors that have contributed to the existence and growth of multinational enterprises, both in number and size, which should not be lost sight of in any attempt to ease tensions and bring about improvements in international economic relations.

First, multinational enterprises have been a major contributor to the development process. Foreign investment, the major external source of capital and technology in developing countries, has been taking place against a background of expanding world trade. It has strengthened economic relations between countries, making more effective the allocation of resources of the industrial and developing nations alike. This has necessarily led to greater economic interdependence between nations within the world economy.

At the same time the number of independent nation-States has been growing. It is fear of the impairment of economic independence, yet at the same time the necessity to exist within an interdependent economic system, which has produced so many of the tensions which are frequnetly directed towards the foreign investor who is the visible manifestation of such economic interdependence. Yet the activities of multinational enterprises have been, and will continue to be, valuable and acceptable engines for economic growth to many Governments.

Secondly, the multinational enterprise has no privileged position in the political sense. The foreign investor can do nothing without the consent of the sovereign State. He is subject to prevailing company laws, tax laws, labour laws, foreign investment or exchange laws and to endless others. He will seek compatibility in the given environment and will conform even to unwritten laws, because the success of his operation depends on his being fully acceptable. The State holds firmly the power to reject. The multinational enterprise has proved adaptable and amenable to change, it is not a static phenomenon, and individual Governments have the power to restrain or mould its activities within their boundaries to the mutal advantage of themselves and the companies concerned.

The question of "power" concerns some observers of the multinational enterprise. However, the inherent lack of flexibility in an industry such as the oil industry leads to such fragmentation and immobility as to make its size meaningless in a political sense. In an economic sense, "power" should rather be equated with "economic strength" - the strength to take risks, to take advantage of the economies of scale and to be in a position to utilize resources, physical and human, efficiently and in a co-ordinated fashion. But this should not be compared with the strength of any one Government and an industry's assets cannot be equated with GNP. Nor are they mobile. They are individually committed and exist only within the specialized environment for which they have been planned - they are not capable of mobilization or redirection at whim. Each company with the Royal Dutch/Shell Group of Companies, for instance, invests capital, time, effort and manpower in response to a business opportunity it foresees. Such an investment must be made in a spirit of optimism; it implies a positive belief in the long-term future of that project and of the economic environment which it is to serve.

Many in developing countries are concerned that the existence of multinationals is a threat to sovereignty because it implies that decisions which affect the economy are taken from outside. However, an investment decision is taken in response to a given business opportunity and, in a competitive industry such as oil, such an opportunity is open to any enterprise to take advantage of - be it national, multinational, or state controlled. Apart from the initial decision to invest in the country, it is the management of the local company that is in a position to perceive the business opportunity and to plan its investment programme accordingly. In the Royal Dutch/Shell Group of Companies, decentralization through subsidiaries has been carried to a high degree, where nationals of each country have full opportunity to reach (and do reach) all levels of management. While delegation to the local management must take place in a framework in which significant investment decisions are for final approval by the shareholding company, such decisions are reached by a real interplay of argument between the subsidiary and its source of funds. This system removes the possibility of "remote" decision-making without reference or heed to the local environment. In the context of the reality of sovereign power, acceptability of behaviour is vital, and to a large measure can be achieved by delegation of authority to the management of each company.

It is as much to industry's advantage, as it is to that of the Governments and international bodies concerned, that where problems and tensions exist they should be openly discussed and resolved to the mutual satisfaction of all. Frank dialogue could help and Shell would be willing to participate in this. As regards the various suggestions made in the United Nations report, an international machinery for the settlement of investment disputes is important. However, there is already a considerable number of agreements between host countries and private foreign investors in which it is stipulated that any dispute should be referred to the arbitration machinery provided by the World Bank Convention on the Settlement of Investment Disputes. Wider use of this machinery is to be recommended. Under its terms, diplomatic intervention is precluded where the parties to a dispute have agreed to submit it to arbitration under the Convention. Conciliation is another method of settlement of disputes which might be worth investigating.

In regard to the proposals for an international forum, while having some reservations as to the need for a new institutional body, I am in favour of the principle of a continuing "dialogue". Such a dialogue should not only encompass multinational enterprises, Government and international organizations, but also larger national enterprises, particularly those involved in international trade. The United Nations Panels on Foreign Investment could perhaps serve as such a forum, if put on a more permanent footing.

There is clearly a need for further objective analysis of the activities of multinational enterprises and larger national enterprises and disclosure is an important factor in this. However, for competitive reasons this should be on a non-discriminatory basis covering all large enterprises both national and international. Most of the larger multinational enterprises are currently going a good deal beyond statutory requirements in this regard but there is a need to encourage standardization of disclosure procedures. If an "information centre" provides for all these points, I am in favour of the proposal to centralize the gathering, analysis and examination of information which would enable objective studies to be undertaken in the field of foreign investment - the first priority being to ascertain what is already available.

The harmonization of national rules is also desirable, but how best this can be achieved depends on the subject matter. In the field of taxation, the appropriate method would seem to be the spreading of the network of double taxation treaties. The common treatment of, for example, dividends, interest, royalties and capital profits should also be an objective. In the field of investment incentives, the regional approach would probably be more appropriate and there ought to be some flexibility to allow countries within a region to deal with special situations. Similarly in regard to the harmonization of environmental regulations, there will be a need to take account of developmental differences between participating countries.

I have some doubts on the possibility of Governments agreeing to subscribe to a General Agreement on multinational enterprises. A great deal more analytic work will have to be done to see whether such a proposal would be feasible. In the meantime, however, the ICC guidelines are to be recommended as providing a useful framework for initial consideration and discussion which will serve to identify the problems on the basis of which, perhaps in some more distant future, legal obligations acceptable to all may be agreed upon.

The multinational enterprise is a valuable agent for growth and if it is to succeed it must conform to the highest standard of practice - be it in its relationships with Government, commerce, employees, competitors, investors or the public. It has to work within a given world economic system - a system which inevitably involves a measure of interdependence between States - and also within the various economic and political systems of the countries in which it operates. The multinational enterprise, by virtue of its very "foreignness", must be highly tuned and geared to respond to economic and political indicators dictated by the variety of individual environments in which it exists. The contribution of the multinational enterprise to world development is significant and I am optimistic that the problems - be they real or perceived - are capable of solution or removal through objective analysis or rational and frank discussion between the parties concerned.

Summary of replies to questions *

Question: Can multinationals and Governments co-operate in solving the world's basic problems?

Reply: An enterprise, be it national or multinational, can only survive if it has social justification in pursuing its economic goals. Multinationals could work more closely together and with Governments to solve some of the problems with which the world is confronted, but there are constraints, such as antitrust legislation and inhibitions on the part of Governments. Two examples of great social impact in which there is close co-operation with Governments are: one, a joint venture between Shell, another company and the Government of Iran, concerning a substantial agricultural development, and the other, CONCAWE (Oil Companies' International Study Group for Conservation of Clean Air and Water (Western Europe)), which co-operates closely with Governments.

Question: How does Shell's labour policy tally with recent events in United States plants?

Reply: The strike of Shell Oil employees in the United States only involved the safety and health of workers in terms of procedures, and the real issue was one of managerial responsibility, which Shell Oil felt it could not delegate to third parties. The strike was called off and the matter settled some months ago. I have no information as to whether Shell Oil is building anything with non-union labour.

Question: Should there be an enforceable international health and safety code?

Reply: It would be marvellous to have a world-wide safety and health code

* Questions were asked by the Chairman and Messrs. Dunning, Weinberg, Miller Mansholt, Ivanov and Uri.

but this would be a matter for Governments and would not be easy to achieve.

Question: Is Shell willing to bargain with its workers internationally?

Reply: The world is still organized nationally or locally, with national labour laws and national unions. It is hard to see how within these constraints bargaining at an international level would be possible. Nor would it be possible to bargain on an international code for safety and health standards. This would be a matter for Governments to agree upon.

Question: For purposes of disclosure, should priority be given to the public interest or to the need of the company to withhold certain information for competitive reasons?

Reply: Recognized international bodies as well as Governments should prevail, provided their demand for disclosure is made on a non-discriminatory and non-political basis and is not unreasonable. For instance, it would be absurd to demand the publication of a technical formula before the relevant process has been patented.

Question: Should there be international accounting and reporting standards?

Reply: I would welcome harmonization of international accounting practices, though I do not think it could be easily achieved in any near future, as relevant practices and laws differ a lot.

Question: Should profits be published at the local corporate level?

Reply: Whenever there are local investors in an operating company, the accounts are provided to the local fiscal authorities and in many countries they have to be filed with the authorities and are open for public inspection.

Question: What happens when headquarters and local policies on race differ?

Reply: I disapprove of racial policies, but conditions of employment are a local issue and a multinational enterprise therefore cannot exercise much influence.

Question: Should anti-pollution regulations be harmonized?

Reply: As far as the harmonization of regulations is concerned and the disincentive this would create to the transfer to developing countries of polluting plant which they want for economic reasons, I appreciate the difficulty but in the long term I am nevertheless in favour of harmonization. While internationally recognized and non-discriminatory rules on pollution would be most welcome, they should be drafted in a sensible way so that they are acceptable to all countries.

Question: Can the knowledge brought in by multinationals be spread to the mass of the population?

Reply: It is true that investments by multinational enterprises in developing countries can create in such countries an "élite" which benefits from the technology and know-how implanted by the multinational enterprise, but in most cases there is a spread effect of technology and know-how beneficial to the whole economy. There is also the direct transfer of technology by multinational enterprises through scholarships and training courses arranged by them and through co-operation with Governments in educational programmes, for example the various agricultural training schemes which Shell has introduced and is financing in several countries.

Question: Could you accept special taxation on multinationals for development purposes?

Reply: I am opposed to such special taxation and consider that these costs should be met by general taxation. Nor do I think Governments would like the proposal to earmark special taxation for special purposes. They would prefer to spend the receipts from taxation as they think fit.

Question: What profit does Shell Oil earn on its investments?

Reply: It is impossible to give a general answer on the percentage of profit Shell takes out of countries in which it operates. In some countries there is no profit, in others a wide range of profitability. The amount of profit taken out depends on the state of development of the operating company. In some countries it is all reinvested. The earnings which are published do not, of course, take account of inflation. If there were inflation accounting, the real returns from capital invested would perhaps be no more than 60 per cent of the figure published.

Question: Would Shell accept the obligation to give information to an international body?

Reply: If the international body was generally recognized, then we would of course submit to requests for information made by that body. There would be difficulties, however, if the information requested concerned operations in a particular country and that country refused to recognize the international body, for a company has in the first instance to submit to the rules of the country in which it operates.

Question: What action was taken by the home Governments in the case of Shell's expropriation in Algeria, Ceylon, Cuba, Egypt, Guinea, Libya, Somalia, Syria and South Yemen?

Reply: Action was limited to normal diplomatic representations such as expressions of concern and of expectation that adequate and effective compensation would be paid without undue delay.

Question: Has there been any change in Shell's activity in Rhodesia?

Reply: Shell has no control over its interests in Rhodesia and has no trading links with Rhodesia.

Question: What are your views on the present international crisis over oil?

Reply: First, the world needs oil. Second, there will be insufficient reliable alternatives for at least ten years. We must therefore reduce consumption, be less wasteful, be organizationally and financially capable of finding new sources, and ensure that producing countries are able to establish sound economies, for otherwise they will not produce the oil for which there is no alternative. A far-reaching long-term and wide-ranging international solution must be found, notby a group of countries, but by the international community as a whole.

Question: Would Shell be in favour of restraints on consumption?

Reply: Shell wishes to grow, but it is not obsessed by growth. Where a particular sales drive would have adverse effects on the country concerned, restraint would be exercised.

H. S. WALKER
Permanent Representative of Jamaica to the United Nations in Geneva

Summary of written and oral statement

The United Nations Secretariat deserves a special tribute for their report on a complex and difficult subject. This report provides a useful basis for further detailed study and analysis of the problems confronting both developed and developing countries in dealing with multinational corporations, and in devising strategies whereby these corporations can make a better contribution to world development.

The role of multinational corporations in world development has become topical because of the wide publicity which has recently been given to some of their activities, particularly in developing countries. These corporations are firmly entrenched in the economies of developed countries, some of which are concerned about the scope of their operations and are seeking ways and means of greater regulation of their activities.

While some multinational corporations have undertaken certain undesirable activities in some countries, both developed and developing, certain benefits and advantages accrue from their operations, particularly in terms of new technology and providing a source of capital. However, since these organizations are essentially profit-oriented and generally have no loyalty to any one country, their activities are often inimical to the national interests of countries within which they operate. These activities include transfer pricing and other various tax evasion techniques, licensing agreements which limit the market to be served by the licensee, and activities which tend to encroach upon the national sovereignty of host countries.

An objective approach to the issues involved would recognize the beneficial effects of multinational corporations as well as their disadvantages. A regulatory approach is necessary in order to ensure an equitable balance between national interests and the profitability of multinational corporations. Its implementation must be based on a recognition by Governments of both home and host countries of the need for such an approach. When this basic step is achieved, then Governments will be prepared to collaborate in obtaining relevant information on the activities of multinational corporations since the formulation of appropriate regulations must depend on an adequate knowledge of their activities.

Jamaica generally supports the recommendations for future action outlined in the report of the United Nations Secretariat. We agree that the precise relationship between multinational corporations and the host country should be defined by the host country itself. However, this would be facilitated by the adoption of broad guidelines which would be internationally acceptable. There is already a great deal of material which could serve as a framework for international norms in defining relationships between Governments and multinational corporations. This material could be utilized by an organization within the United Nations system to prepare a draft outline of such a framework.

We agree that an international forum should be provided for the airing of views, discussions and studies of issues concerning multinational corporations. We are not, however, convinced that the establishment of a subsidiary body of the Economic and Social Council would be necessary. Perhaps a Sessional Committee of the Economic Committee of the Council would be appropriate. One of the first tasks of the Sessional Committee could be the drafting of a framework for the relationship between host countries and multinational corporations.

The Government of Jamaica recognizes that international action must be undertaken to regulate the activities of multinational corporations and to ensure that maximum benefits accrue to host countries. Such action would include:

(a) The provision of technical assistance by the United Nations to developing countries in their dealings with multinational corporations. Some developing countries might require assistance in establishing machinery and procedures for dealing with these corporations, as well as assistance in actual negotiations of tax agreements. In addition, the training of local personnel in developing countries to deal with these corporations is vital.

(b) The harmonization of national policies through the formulation of a code of conduct for multinational corporations. Such a code should be regulatory in nature and should be adopted by both home and host countries. Specific matters to be dealt with by the code would be harmonization of taxation policies on profits of subsidiaries and/or affiliates, especially in the area of evaluation of transfer pricing, as well as harmonization of environmental regulations.

(c) The establishment of a multinational corporation information centre under the aegis of the United Nations, for the systematic collection, analysis and dissemination of information. In particular, information is required on movements of goods and services between subsidiaries and their transfer pricing, as well as data on actual financial flows of international direct investment by industry, both on a regional and sub-regional basis, and also in selected countries.

(d) Research and analysis of multinational corporations' activities in order to predict both the effects of these activities and of governmental and international action to control or regulate them.

(e) Studies of the activities of multinational corporations in extractive industries of developing countries. These studies should be undertaken on an industry basis and should develop recommendations in order to assure an equitable balance in terms of the needs of both developing countries and the multinational corporations.

(f) Technical co-operation in the assessment of the impact on the environment of the establishment of certain pollutive industries in developing countries, such as petro-chemical, pulp and paper, and mineral extracting and processing.

(g) Technical assistance to developing countries to ensure appropriate selection, adaption and assessment of future technology best suited to their particular needs.

Jamaica has had some experience with multinational corporations. In our circumstances, in order to achieve and maintain sustained economic growth, large inflows of foreign capital are required. Hence, the participation of multinational corporations as an important source of private capital is welcomed. However, such participation must result in meaningful benefits and not compromise the legitimate aspirations of the Jamaican people and their right to regulate their affairs within a sovereign State.

Summary of replies to questions *

Question: Has your Government been under any external pressure to welcome foreign capital?

Reply: In order to achieve and maintain a rapid pace of development, Jamaica requires large inflows of foreign capital. Accordingly, Jamaica has always welcomed foreign capital on fair terms, and there has been no real motivation for applying external pressures either on the aid front or in the political field.

Question: What is your policy as regards nationalization?

Reply: Jamaica, being a country dependent on large capital inflows for its development, is naturally cautious about nationalization, and it is not a policy that we would lightly undertake. However, in those cases where it is clearly in the public interest to have public control of an enterprise, e.g., a public utility, this is only done after a long period of negotiations, and in accordance with the Constitution, and compensation is, of course, paid.

Jamaica is a member of the International Centre for Settlement of Investment Disputes.

Question: What are the consequences of having some groups of the labour force, employed by multinationals, paid considerably more than the rest?

Reply: It is a fact that bauxite workers, in particular, are paid much higher wages than other workers in Jamaica, but there are only about 6,000

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* Questions were asked by the Chairman and Messrs. Browaldh, Weinberg (consultant), Dunning and Somavia.

such workers since the bauxite/alumina industry is highly capital-intensive.

One consequence of the high wages paid to bauxite workers as compared to agricultural workers is that, for example, the sugar industry complains of losing some of its skilled workers to the bauxite industry. Another consequence is that the feeling is generated that if workers in a bauxite area cannot obtain bauxite wages, there might be no point in working at all. The special position of the bauxite and alumina workers has existed almost since the inception of the industry.

Question: What is the impact of the multinational corporations on the lives of ordinary people in the developing countries?

Reply: It is agreed that economic development is not an end in itself and that what is important is to try to improve the quality of life of the people. Of course, this is not a matter primarily for the multinational corporations, but a matter essentially for the Government itself to try to devise the right strategy for balanced economic and social development. This is being done in Jamaica, for example, by the emphasis being placed on education, health, family planning, youth development and social security.

The multinational corporations operating in the country have, of course, assisted in improving conditions of life in the areas in which they operate. Some of these corporations are actively assisting in the programme for improving and diversifying agriculture, in the provision of training facilities and in other aspects of development. However, the implication of my statement is that the Government requires a greater share of the returns from the activities of these corporations in order to accelerate the improvement of the economy and the social conditions of the country.

On the other hand, there are adverse effects that the operations of multinational corporations can have on the social life of a country. One aspect would be that they tend to bring along the standards of their home country and accentuate the economic and social divisions in the country. The practice has been in the past in Jamaica for the multinational corporations to employ only expatriates in senior positions, and even in middle management, but this situation is now being remedied by governmental action.

Question: What is the effect of multinational operations in the tourism sector?

Reply: Tourism assists the Jamaican economy in two important ways. It is a means of providing badly needed foreign exchange and, equally important, it is a means of diversifying the economy.

Because of the unplanned manner in which tourism initially developed in Jamaica, the crucial importance of the second objective was missed until recently, the result being the purchasing abroad of most of the goods required for the industry, thereby substantially reducing the foreign exchange benefit. This situation is being corrected so that increasing quantities of food, furniture and other products are being supplied from local sources.

While a substantial number of hotels in Jamaica are owned or operated by multinationals, there is significant and increasing ownership and operation by nationals.

In dealing with multinationals there are a number of factors to be taken into account. There is the danger of leakage in foreign exchange earnings, of the best land and beaches belonging to expatriates thereby generating local grievances, of expatriates performing managerial functions which suitably trained nationals could undertake, of tourism developing in such a fashion as to alienate the local population, of ancillary services which could well be performed by nationals being provided by foreigners. These and other factors have to be taken into account, and in my country there is now a greater recognition of the need for planning, co-ordination and regulation to ensure the maximum benefits from the tourist industry.

Question: How should technology be adapted for the developing countries?

Reply: There are two aspects to this question. On the one hand there is need in a country with high unemployment to find labour-intensive industries, using simpler forms of technology. Frequently, however, one finds that it is in these areas that the developed countries have tariff and non-tariff barriers which inhibit the processing of primary products by the developing countries. On the other hand, a country with a small internal market requires the best technology if it is to produce manufactured goods for export. We have had experience of using so-called intermediate technology for export products, with unsatisfactory results.

Sir Ronald WALKER
Special Adviser to the Government of
Australia on Multinational Corporations

Summary of written and oral statement

The definition of multinational corporations proposed in the Secretariat's report, namely, "all enterprises which control assets - factories, mines, sales offices and the like - in two or more countries", is too broad. It blurs the problems of multi-national corporations by merging them with the general subject of foreign direct investment, diverting attention away from the special characteristics and behaviour of those large enterprises that have subsidiaries in many countries, and enjoy certain facilities that are not at the disposal of small international enterprises.

The large multinational corporations have become the main vehicle of foreign ownership and control of national industries. Although they can make great contributions to development, their principal objectives are the profits and growth of the corporation as a whole, and the activities of each subsidiary are directed towards these objectives rather than the interests of the individual subsidiary, or of the country in which it is established. It is in order to retain freedom to manage globally their production, trade, technology and finance that multinational corporations often restrict or refuse local participation in the ownership and control of their subsidiaries.

Changing Australian attitudes

In the past, Australian governments have encouraged a steady flow of capital and have been at pains to establish a favourable environment for foreign enterprise. During the 1960s, foreign investment represented about one-third of private investment. Total foreign investment during the post-war period amounted to $A14,000 million.

This supplemented domestic savings and brought important contributions of technology, enterprise and managerial experience, which accelerated Australia's industrial development. But an inevitable consequence is that a large part of certain sectors of the economy, particularly manufacturing and the extraction of minerals, are today under foreign ownership and control.

According to surveys made by the Government Statistician, the percentage of foreign ownerships increased from 22.4 per cent of the total in 1962-63, to 26.3 per cent in 1966-67. In a number of important manufacturing industries the percentage was much higher, from 50 per cent to 88 per cent. In mining the value of production under foreign control rose from 36.8 per cent in 1963 to 58.1 per cent in 1968. Well-known multinationals played an important role in this foreign penetration. The policy of giving an unqualified welcome to foreign direct investment has been criticized in Australia as involving "selling off a bit of our heritage each year".

The growing recognition that foreign investment in general, and multinational corporations in particular, may not be an unmixed blessing has coincided with a dramatic change in the Australian balance of payments. Australia had long been accustomed to running a substantial deficit in its international current account. In recent years, however, the deficit declined progressively and was finally eliminated, although the inflow of capital continued at an increased rate, and could only be absorbed by additions to Australia's monetary reserves, making it more difficult to restrain inflationary pressures. This situation led the Government of the day to impose some restrictions on capital imports. It also increased public interest in the role of multinational corporations.

The reappraisal of foreign investment and of multinationals received a fresh impetus when the Labor Government took office in December 1972, for the Labor Party had long advocated measures to provide greater Australian control over the country's natural resources and industries. The annual Conference of the Labor Party in July 1973 adopted a resolution requesting the Government to consider establishing an official enquiry into multinational corporations in Australia.

At the recent Ottawa Conference of Commonwealth Heads of Government, the Australian Prime Minister (Mr. Whitlam) initiated a discussion on multinational corporations, and the Commonwealth Secretariat was instructed to organize further study of the problems.

The Prime Minister subsequently chose the occasion of an official visit to Japan to make an important policy statement, on 30 October, spelling out Australia's current policy on foreign investment. "My Government" he said "has the firm policy objective of promoting Australian control of Australian resources and industries. We also want to achieve the highest possible level of Australian ownership", meaning "the highest Australian equity that can be achieved in negotiations, project by project, that are fair and reasonable to both parties and are within the capacity of our own savings to support."

Australian policy measures

Australian policy measures, like those of other countries have so far been couched mainly in terms of foreign direct investment, rather than in terms of regulating multinational corporations as such. But they have a bearing on the activities of multinationals. Examples are:

(a) The Companies (Foreign Take-overs) Act.

(b) The Australian Industry Development Corporation, which assists in providing finance for greater Australian participation in Australian industries.

(c) Regulation of mineral exports to maintain a reasonable level of prices and to facilitate balanced development of resources.

(d) A proposal to establish a Petroleum and Minerals Authority.

(e) The proposed construction of a national pipeline network.

(f) Discouragement of foreign acquisition of land and buildings.

(g) Plans to regulate foreign participation in non-bank financial institutions (establishment of foreign banks is already restricted).

(h) Legislation to strengthen control of business practices.

(i) The Prices Justification Tribunal.

(j) Special attention by the taxation authorities to problems of transfer-pricing and tax havens.

Action has also been taken to check the excessive inflow of foreign capital. An embargo had been placed on short-term borrowings from overseas in September 1972, and the new Government revalued the Australian dollar and introduced a variable deposit requirement in respect of borrowing.

Australia as a "home" country

Australia's main contribution to developing countries is through official aid, mainly in the form of grants, and through tariff preferences. Nevertheless, the Australian Government is conscious of the increasing role of Australia as a home country, not of large multinational corporations, but as a source of private investment in neighbouring countries of South East Asia and the Pacific. It will encourage such investments by Australians, especially in the form of joint ventures, and will endeavour to ensure that Australian firms carrying out activities in developing countries comply fully with the development objectives of their Governments.

Proposed activities of the United Nations

The Government welcomes the initiative that the United Nations has taken in relation to multinational corporations and recognizes that there is a role for international co-operation and possibly for international regulation in this matter.

Any new United Nations programme should concentrate on the activities of large multinational corporations, which offer a challenging new field for international action.

The particular activities included in the programme should be those that correspond with the needs of a large number of countries and promise useful results within a reasonable time. The United Nations system can play a useful role in collecting and disseminating information that ought to be a matter of public knowledge. There is also a need for the exchange of views and experience and we are attracted by the suggestion that there should be a central forum within the United Nations, where the findings of more specialized bodies can be drawn together, and more general international policies can be developed. The Australian Government will give careful consideration to this proposal when it has been elaborated in more detail. We also agree that the United Nations should be ready to provide technical assistance in this field to developing countries if they wish to receive it.

We share the hope that through the United Nations a generally accepted code of conduct for multinational corporations can be developed; one that meets the needs of individual countries and at the same time provides a framework in which multinationals can continue to make an important contribution to development.

There is also considerable scope for bi-lateral consultation between the Governments of home and host countries, which both have an interest in avoiding or reducing tensions before they lead to international disputes.

Further points

(1) My suggestion that, in addition to other international action, there might be periodical bilateral consultations between Governments of "home" and "host" countries does not imply that the home Government should identify itself closely with multinational corporations that have headquarters in its country, and support them when they have difficulties with the Government of a host country. But when corporations from a developed country are undertaking important activities in a particular developing country, it might be useful for the two Governments to have consultations to review the progress of those activities, and to discuss together any difficulties encountered by the Government of the developing country in its relations with the multinational corporation. The objective would be for the Governments to talk to each other about any such problems at an early stage before they develop into an international dispute that may be difficult to deal with.

(2) The measures adopted and proposed in Australia to exercise greater control over foreign investment, particularly when it leads to foreign ownership or control of Australian industries and resources, do not reflect simply the assertion of Australian national identity. They arise from a widespread conviction that the interests of the country as a whole would be better served if the effective control of resources and industries were, to a greater extent, in Australian hands. This conviction does not rest on a long list of demonstrated abuses, but rather on the general view that while Australia has greatly benefited in the past from foreign capital and foreign enterprise, the Australian economy has now matured to a point at which Australians should be in a stronger position to manage their own future industrial development.

(3) As regards our control of mineral exports, it would be an entirely misleading impression to represent Australia as sitting on her natural resources and depriving a hungry world of them. There is a difference between allowing your raw materials and minerals to flow out at whatever rate a foreign corporation finds profitable, and managing your exports so as to get the best price you can for them. Australian measures to regulate the exportation of minerals are not a repudiation of previous commitments, though they may at times involve some modification of previous expectations.

(4) The question whether the Australian Government has adequate power to regulate the activities of multinational corporations turns partly on what degree and form of regulation is considered necessary. And this in turn depends on what is known of their activities. Some kinds of regulation might be difficult to establish owing to the division of legislative powers in our federal system between the central and state governments. This problem of regulation of multinationals is a relatively new one, and it is likely to be explored over the coming years in a pragmatic way, in relation to specific issues as they arise, and bearing in mind our need to maintain co-operation with the multinational corporations as far as is consistent with Australian national interest.

Summary of replies to questions*

Question: How far has the change in Australian attitudes been due to specific aspects of foreign control, as distinct from the balance of payments situation, and is the new policy a reaction to actual abuses, or a simple desire to own the means of production?

Reply: Even before the improvement of the balance of payments, there was a widespread feeling that Australia's resources and industries were falling under foreign ownership or control to an excessive degree and that there should be more Australian equity participation. This reflected not so much a reaction to specific abuses by multinationals, as the belief that Australians should have the main benefits from the nation's resources, and the main control over industrial development. There were also some specific complaints relating to tax avoidance, prices, export franchises, monopoly power and the like.

Question: If Australia had to do it all over again, how would the inflow of capital be handled? Have any lessons been learned that could be recommended to developing countries?

Reply: Developing countries face something of a dilemma since they need foreign capital but wish to avoid foreign control. Our experience indicates that the Government of a developing country should watch the situation carefully, inform itself fully about the foreign companies it deals with, and be ready to

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* Questions were asked by the Chairman and Messrs. Miller, Mansholt, Dunning, Sadli, Uri, Estrany y Gendre, Somavia, Weinberg (consultant).

act in cases where the balance of advantage is going too far in favour of foreign investors.

Question: What methods is Australia using to get more control, compulsion or negotiation? How far is foreign ownership being limited? Is there anything retroactive in the legislation?

Reply: Australian policy is evolving and while some specific measures have been taken, such as the regulation of foreign takeovers, and general objectives have been declared, such as a greater Australian equity in mining developments, we do not yet have a comprehensive programme on multinationals. Our approach has been rather ad hoc, and we have not gone very far yet in the direction of compulsory measures. But the Government is taking a tougher line in its negotiations with foreign mining companies and is controlling mineral exports more closely. As to retroactivity, there has been no repudiation of previous commitments, though new measures may well involve some modification of investors' earlier expectations.

Question: Are your policies discriminatory as regards the geographical origin of investment?

Reply: No, but we would welcome greater diversity of source of future investments.

Question: In Australian experience, are wholly-owned subsidiaries or joint ventures better suited to promote the spread throughout the country of development effects of foreign investment?

Reply: I do not think Australian experience provides any general conclusion on this issue. We would have preferred to have more joint ventures. As long ago as 1964, Sir Robert Menzies, then Prime Minister, said that he would like to see all foreign companies offer a larger equity to Australian investors, though he did not consider we had reached a stage where we should enforce this. Countries that are short of capital often have to accept a higher degree of foreign participation than they would wish.

Question: There may be too much of the passionate "Let us be master of our own resources" type of approach extending to control over exports that would be essential also for other countries; is this not a dangerous path?

Reply: It would be an entirely mistaken impression to assume that Australia would deprive a hungry world, or an energy-short world, of access to its resources. But there is a difference between allowing minerals and raw materials to flow out freely at the call of the market, and regulating their flow to ensure that you get a fair price for your exports.

Question: Does Australia have adequate power to regulate the actions of multinational corporations according to your national purposes? And what would international regulation add to what you have now? If the Government has power to control, what is the argument for local ownership? Is it one of national identity, or is it real?

Reply: Whether a government has adequate power depends on how far it wishes to control the country's development and also on the actual problems it faces. Under the Australian Federal Constitution there are some limitations on the powers of the national Government in the economic field. I think I would say the Government does not have all the power it may need to deal with multinationals, nor indeed full knowledge yet of what power may be needed. Many of these problems are new ones, and will be explored and dealt with pragmatically. Whether or not international regulation would add to the Government's power, we believe that a larger measure of Australian ownership would improve the prospects of Australian control. It is not only a question of national identity.

Question: Is Australia's attitude as a home country to encourage your subsidiaries in other countries to behave in a way you would like foreign companies to behave in Australia?

Reply: We expect Australian companies abroad to respect the policies of developing countries, just as we would like foreign companies to have regard to our national interests. But our policy towards developing countries is not designed to impress foreign companies in Australia. It comes from our profound desire to help and strengthen developing countries in our region, where Australian business activities are inevitably expanding.

Question: Referring to your suggestion for bi-lateral consultations between home and host Governments, how closely should a home Government identify itself with multinational corporations, based in its territory, when they have difficulties with host Governments? Can it control them?

Reply: My suggestion does not imply that the home Government should identify itself closely with multinational corporations and support them when they have difficulties with the Government of a host country. But when corporations from a developed country are undertaking important activities in a particular developing country, it might be useful for the two Governments to have consultations to review the progress of those activities, and to discuss together any difficulties encountered by the Government of the developing country in its relations with the multinational corporation. The objective would be for the Governments to talk to each other about any such problems at an early stage before they develop into an international dispute.

Marcus WALLENBERG
Chairman, Skandinaviska Enskilda Banken

Summary of written and oral statement

In order to draw any meaningful conclusions with respect to the multinational company (MNC) - a concept of which there is no agreed definition - one must place the MNC in the frame-work of general economic interdependence between nations. The MNC is only one instance of the structural changes which take place in today's society and which are a natural part of a closely knit global economic system. The MNC should not be singled out as the main cause for the negative social effects which may arise in connexion with structural changes. Nor should the MNC be made the scapegoat for problems that Governments face in seeking to achieve full employment, price stability, a fair balance in their external payments etc.

The Swedish experience of MNCs, both with regard to Swedish subsidiaries abroad and foreign subsidiaries in Sweden, does not indicate that there should be any particular problems either way.

From a legal and political point of view the host Government is, in fact, in a very strong position vis-à-vis foreign companies irrespective of their size. Nevertheless, many host Governments look upon foreign companies as a potential threat to their independence. One reason for such fears may be that many developing countries are not equipped to deal with foreign subsidiaries in an appropriate way. The host country may lack a full-fledged company law, sophisticated public accountants, an efficient fiscal administration etc. There is reason to believe that, when the developing countries become better equipped in these areas, many problems now attributed to the existence of MNCs will not make themselves felt.

Another area where improvements are needed in many developing countries is that of trade unions. There is often a need for well-functioning trade unions and well- educated trade union leaders. It is a complete mistake to believe that businessmen would be against the establishment of trade unions where they do not exist. On the contrary, the operations of foreign investors in developing countries would be facilitated, had they a responsible and knowledgeable counterpart on the local labour side. Here technical assistance through the United Nations and International Labour Organisation should be expanded.

Industrialization and subsequent economic growth which are brought about by MNCs are the basic benefits to the nation-State. Industrialization can hardly be carried through without repercussions on the existing economic structure of a country. This is something that has to do with industrialization as such, not with the fact that the MNCs take part in it.

As to the question whether job opportunities are lost at home, when you invest abroad, the choice is very seldom between investing at home or abroad. It is either to invest abroad or not to invest at all and, hence, to accept being closed out of the market. An essential fact of the company's investment strategy is that, once a foreign investment has gone into operation, production at home will have to be increased in order to supply the foreign plant with intermediate products. The employment effect at home is, therefore, usually positive.

The principal motive for a foreign investment is rarely, if ever, availability of low-cost labour in the host country. The labour cost is just one of many factors in the calculation. The overriding reason for establishing production abroad is, no doubt, the necessity of defending or the desire to capture a market. Nevertheless, there is a natural tendency for capital-intensive activities to be continued in the industrialized home country and for labour-intensive activities to be placed in the developing countries. These things seem to sort themselves out in a very natural way, where decisions are dictated by the market and by our competitors rather than by our managers and our boards.

As a rule the MNC undertakes a social responsibility over and above what is required for productive operations. In so far as foreign investors do not sufficiently identify their interests with those of the host countries, their operations in these countries are not likely to develop smoothly and successfully.

The impact of the MNCs on the functioning of the international payments system should not be overstated. The major origin of the flow of funds between countries is the trade assets and debts that are currently created on a revolving basis by traditional export and import trade transactions. The long-term capital requirements of the MNCs call for relatively little transfer of funds across the exchanges.

Nobody needs the MNC more than the developing countries. Our objective must be to give the developing countries the opportunity to use the MNC as a vehicle to participate in the circle of nations that benefit from the ever-growing economic interdependence.

I am inclined to agree with the United Nations report that some general agreement on principles to be applied by Governments and foreign investors would be helpful. The "Guidelines for International Investment" published by the International Chamber of Commerce could serve as a starting point for an effort in this direction.

International organizations, both governmental and private, could play an increasing role in bringing Governments and private investors together, to help them gain a deeper understanding of the conditions under which they live and operate and to try to reconcile their respective interests. For example, undertakings such as the United Nations Panels on foreign private investment and the meetings of the ICC-UN/GATT Economic Consultative Committee should be pursued and expanded.

In addition, we might consider ways and means for bringing about, with the assistance of the United Nations, a direct dialogue between an individual host Government and the international business community. Or - along the same line of thought - would it not be a good idea to bring experienced business people into United Nations or World Bank/International Monetary Fund missions to individual developing countries for the purpose of assisting these countries in drawing up or reviewing their development plans and their priorities in the field of industrialization. What I am really after is a method by which a developing country could obtain through the United Nations impartial foreign business expertise on internal national policy matters with full guarantee for its undisputed sovereign rights.

Business has gone truly international. The nation States are lagging behind. The United Nations whose noble aim it is to foster international co-operation should have an important role to play in encouraging and helping its Member States to organize themselves in a manner that would widen the business community's opportunities to raise the standard of living of their peoples. It would indeed be paradoxical if, instead, a United Nations undertaking of the kind in which we are now involved should come to lay obstacles in the way of the hitherto most successful process of internationalism, namely international business.

Summary of replies to questions*

Question: How should a multinational corporation be defined?

Reply: The definition of a multinational corporation which is used in the United Nations report seems to me to be too broad. In order to be classified as multinational, a corporation should have subsidiaries in more than one foreign country and should, above all, be engaged abroad in both manufacture and sales.

Question: What are the prospects for the future internationalization of business?

Reply: It is impossible to foresee how far and how fast the internationalization of business will go. One thing is sure: as long as international business is rendering a service to the communities of the different parts of the world, it will develop still further. Provided, of course, that it will be allowed the necessary freedom. Much will depend on whether we succeed in our efforts to stop protectionism in fields such as trade, capital, labour and knowledge.

Question: What is your position as regards disclosure of information?

Reply: With regard to disclosure of information, standards are very high in Sweden. They are written into the company law. Moreover, the information disclosed is widely appreciated thanks to people's generally high level of education. When I see the annual reports, the financial statements

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* Questions were asked by Messrs. Ivanov, Miller and Somavia.

and the auditors' reports of some of the big Swedish multinational companies, I sometimes fear that too much information is given away for our competitors to pick up. However, we are protected by a provision in the law, according to which we cannot be forced to a disclosure of information that might cause damage to the company.

This very open policy of Swedish companies has been practiced also in their operations abroad. For example, in the LAMCO joint mining venture in Liberia, our partner, the Liberian Government, of course, knows as much as we do ourselves. We have Price Waterhouse as our chartered accountants. To the general public we disclose information not only about the financial situation of the company, but we also give data about its production costs, prices, investment plans and so on.

Question: What is the position in regard to investment guarantees and guidelines in Sweden?

Reply: Investment guarantees against the so-called political risks are provided for by a number of Governments. In Sweden, too, there is such a scheme but so far not a single company has availed itself of this possibility. The reason is, no doubt, that some provisions of the law in question were based upon unrealistic assumptions and are for practical purposes inapplicable.

As to efforts to establish an international investment guarantee system, I used to advocate this in the OECD, when I was chairman of the Business and Industry Advisory Committee to the Organization. However, I was always asked: "Are you quite sure that you are not going to do the business all the same?"

A code of good conduct regarding foreign investment would, I think, be helpful, provided it were a "two-way street"; in other words, applicable both to companies and Governments.

Sir Ernest WOODROOFE
Chairman, Unilever Ltd
and
G.D.A. KLIJNSTRA
Chairman, Unilever NV.

Summary of written and oral statement

Characteristics of Unilever

Multinationals are not a homogeneous category. Generalizations about their activities are, therefore, misleading. Most current criticisms are certainly not relevant to Unilever.

Unilever mainly manufactures locally for local markets, and this has proved profitable long-term. The type of goods produced varies from country to country because of differing local tastes. The effect of Unilever's investment abroad is more to save imports than to increase exports. In the seventy-five countries where Unilever manufactures, the host country specifically asked us to start local production, or we began with their full blessing. Companies which have since become part of Unilever existed in forty-one countries before 1914, and this long establishment has meant that the business has had time to grow organically into the local societies.

Unilever and the national culture

The company does not try to change local cultures but to satisfy the needs these cultures have created. It spends $30,000,000 per year on market research in order to ensure that the products it makes are those the consumer wants, and readily adapts its marketing, packaging and selling systems to the local way of life.

Financial, fiscal and monetary considerations

Transfer pricing is a minute part of our business (only 3 per cent of the Company's transactions are intra-company; only 1 per cent are intra-company and involve a transaction with a developing country) and prices are fixed by arms-length negotiation. Central purchasing often gives the benefit of cheaper contract prices, and subsidiaries are normally charged this price.

Unilever complies with all tax laws, pays promptly and, if necessary, provisionally. It does not divert profits for tax reasons and does not try to avoid tax by routing transactions through "tax havens". It is unjust that, in most countries, the tax system discriminates against the multinational so that Unilever and its shareholders often find themselves paying considerably more tax than national companies with national shareholders.

Unilever's foreign exchange transactions are large but they are part of our trading activities and not speculative. The Company respects all relevant foreign exchange regulations. Cash balances, half of which are held in weak currencies, notably the pound, do not lie idle, but are invested and cannot be made available to speculative movement without some cost. They are equivalent to only 2 1/2 weeks' turnover.

The balance of payments effect of any investment is indeterminate. As Unilever products are, in general, necessities or semi-necessities, they would probably be imported if they were not manufactured locally. It is difficult to estimate the over-all effect of local manufacture, but in 1972 (after allowing for imported materials) Lever Brothers (Ghana) Limited saved Ghana $25m as against imports, even after debiting a dividend and service fee that were not allowed to be remitted. Again, Unilever Research in India has made possible the wider use of indigenous oils for soap making, and the savings from this are estimated at $40m for 1962-72.

Certain investments are undertaken primarily for export, as with timber in Ghana and plantations in Zaire, Malaysia and West Africa. Unilever's exports are only one-tenth of its sales and only a third of these are intra-company, mainly within the EEC. The export of internationally branded products is always from the cheapest source of supply, while exports of local brands are made by the local subsidiary.

Unilever's growth in developing countries through acquisitions is minute. It totalled only $13m in the ten years from 1963-73.

Decision making

The great majority of decisions in Unilever are taken in the individual subsidiaries, and thus in the individual countries. Headquarters reserve to themselves a limited range of major decisions: the general direction of the business, agreement to forward plans, top appointments, and major investments. These decisions too are normally made upon the recommendations of, and in consultation with, the subsidiaries.

Unilever's personnel policy

Unilever companies are very largely autonomous in personnel matters. They conduct their own industrial relations. The centre lays down certain principles and provides specialist advice if requested. Subsidiaries are expected to pay wages that are good by local standards, but we can never pay outrageously more than the local rates. It is sometimes complained that we pay our local managers too much compared with local rates. This happens because the locally trained person who has been trained by us has a very high market value.

Unilever prefers its employees to be nationals of the country in which they work; only 7 per cent of management are working in countries other than their own. It is always desirable, however, to have some expatriates in management, even in the home countries, for different nationalities have a sparking effect on others. Unilever has been a pioneer in most countries in pension and training arrangements, and the commitment to local management and equal opportunity for all means that the Company has a large training programme costing perhaps $12-13 million per year for formal training alone.

Transfer of technology

Unilever's research and development expenditure is some $100 million per annum spread over 33 countries. Basic research takes place in six, of which India is one. Unilever has command of a whole range of technologies and expertise. Its contribution to the countries in which it operates is its capacity to put together contributions from many countries and many disciplines into a working whole. All this knowledge and experience is available to every Unilever subsidiary in the world. Multinationals are often accused of erecting expensive, highly mechanized factories using a minimum of labour. Our policy is to produce in the cheapest possible way, and since initially local wage rates are low, mechanization would increase the cost price. Fortunately, the wage level gradually goes up and therefore mechanization gradually takes place. The most modern techniques, however, in planning, improving yields, and reducing waste in raw materials are used all the time everywhere. An example of the way we use labour in developing countries is the man-hours per ton of detergent, which are much higher in developing countries than in the highly developed countries. These are the figures:

	Man hours per ton
India	48
Malaysia	35
Philippines	27
Germany	10
New Zealand	9

Quite apart from direct transfers, countries in which Unilever operates get certain spill-over benefits. Its products and marketing methods may be widely imitated, its international standards of safety and audit help to develop local industry, it supplies a fair number of excellently trained people to local industry, government and academic life.

Access to technology can be obtained through licensing, but the major benefits are those that come from being part of an international organization that is constantly improving its technology and its management skills. These come from adopting the best practices selected from all the countries in which Unilever operates. The exchange of experience which is possible helps to build up international standards for the performance of management and in time these standards are adopted by local industries to their advantage.

Ownership and joint venture

Unilever prefers 100 per cent ownership of its subsidiaries since this prevents any possible conflict of interest. If the host Government or community wants to take part in the activity of foreign-owned companies we do not object, as long as we retain management control in order to protect Unilever's good name, the good-will attached to trade marks, and the position of any seconded Unilever managers. Local participation should not be based simply on distrust of the multinational or on purely political motives.

National sovereignty

Unilever is as subject as any national company to the laws of the country in which it operates, and we respect the law. Ultimately the multinational has only one power vis-à-vis the Government - it can refuse to invest. But too little is heard about the power of Governments; the power to act fairly or unfairly; the power to enforce the sale of shares at inadequate prices; the power to block dividend remittances for years; the power to discriminate through taxation against foreign investment; the power to nationalize or take over a company, as has happened to Unilever in seventeen countries, with inadequate or no compensation. Unilever has written off $140 million of its investment in developing countries because of Government action, and this is at the book value at the date of writing off.

This discrimination and restriction discourages progress. The progress is mutual to the multinational which has the benefit of profitable investment and to the host country which has the benefit of capital, technology and management skills. We therefore welcome the emphasis put on the harmonization of taxation and the suggestion of a code of conduct. The International Chamber of Commerce "Guidelines for International Investment" is a good starting point since it would be unfair if any obligation placed upon Unilever was not binding equally on all competition, and matched with corresponding obligations on the part of the Governments and trade unions with which Unilever deals.

No business can survive without a remittable profit. Unilever therefore will not willingly enter or continue in an activity that does not offer a long-run return. The call for disclosure of more information is understandable but the problems are little appreciated. In a competitive world, no company can afford to be put at a disadvantage by disclosing more than its competitors, and the laws of different countries vary in a way that confuses the whole issue. Practices that are opposed by law in one country, particularly with regard to accounts formulation, may be legal in another. A more open economic society is much to be desired - but it must apply to all members.

We believe that new regulations stand in danger of discouraging investment. A better understanding must be achieved before legislative measures are introduced. There is suspicion of multinationals, generally unjustified, and we therefore welcome all opportunities of increasing an understanding of what we do, amongst the public, the government and the academic community. We would welcome a centre for the collection and dissemination of information, provided it concerned itself with facts, and facts that included the behaviour of Governments towards multinationals.

Suggestions have been made for a supra-national body or some type of international convention on foreign investment or a United Nations authority to govern the relations between home countries, host countries and multinational companies. The attractions of one jurisdiction are clear, but we have great doubts about its practicability. Such bodies could only deal with purely multinational aspects of company operations, and neither home nor host country is likely to yield authority over companies to some international organization.

It must be borne in mind when considering such a scheme that multinational corporations are noted not for their similarities but for their differences.

The good the multinationals do is acknowledged by even the most severe critics. Let us beware the dangers of throttling the growth of good by international rules and regulations. Regulations are the stuff of politics; it would be a tragedy for world economic progress to be brought back by the limitations of world political progress.

Summary of replies to questions*

Question: Should the funds of multinationals be used to acquire existing industries in developing countries? Do multinationals take too large a share of local funds? Do they concentrate on the most profitable sectors, and, as a result of their efficiency, exclude local competition?

Reply: In general, Unilever has started from scratch; for example, by transferring export activities into local production. In cases where we have acquired local assets, the objective was to expand these to form larger, more profitable businesses. Relatively little local money has been used: there are the normal overdrafts with local banks, but certainly not to an extent which could be called absorbing local financial resources; this would often be checked by restrictive local regulations anyway. As far as excluding local competitors is concerned, reference may be made to the introduction by Unilever of vegetable ghee--Vanaspati--in India and Turkey. The previous market share of 100 per cent has now dropped to about 15 per cent in India, owing to local competitors having acquired the knowledge to produce some kind of substitute. Generally they are of lower quality, but there is a market for such products. The same is true of non-soapy detergents, the introduction of which saved scarce oils and fats. Now local firms are in the cheaper sector of this market also. It must be admitted that government policy in India--refusal to increase our production capacity (under the pressure of local competition) and price regulations--also played a part.

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* Questions were asked by the Chairman and Messrs. Estrany y Gendre, Sadli, Dunning, Miller, Weinberg, Mansholt and Somavia.

Question: Could the possibility be explored of co-operation agreements giving local firms access to the full package of Unilever expertise while retaining complete independence?

Reply: Unilever's interests in developing countries include all kinds of relationships, from full ownership to joint ventures and minority shareholding. It is, however, difficult to visualise the practicability of a 'local firm under our wing' relationship.

Question: What is Unilever's yield on capital and the average pay-back time of investments?

Reply: Yield figures are different for different products but, on average, on a historical cost basis, the figure is about 10 per cent for Unilever as a whole. This would be lower if inflation-proof accounting was applied.

Question: How can the objectives of social well-being in the countries concerned be balanced against the constraint of serving shareholders' interests in a competitive climate? What opportunities are there for a firm like Unilever to meet demand for local research and production for export in developing countries?

Reply: Profit-making is not felt as a constraint, but is the outcome of combining ability, efficiency and discipline. So far as research is concerned, it is Unilever's practice to have development laboratories in most countries in which it operates. This is necessary, especially in the consumer goods industry where production always needs to be geared to typical local preferences and habits. For reasons of efficiency, basic research is concentrated in six countries, including India. This structure is complemented by an effective system of exchanging ideas and thought between Unilever scientists in different countries. Although no uneconomical projects can be supported, we collaborate in sectors where we have advice to offer. See, for example, our work on disease-resistant sunflower seed in Turkey, the development of vegetable protein for Nigeria, and advice to various developing countries which want to change over to or start growing oilseeds of better quality. As regards production for export, Unilever's subsidiaries are under no restriction, except as concerns our well-known brands marketed by other subsidiaries in other markets.

Question: Can multinationals such as Unilever sweep away local competition?

Reply: Although multinationals have certain advantages, local firms also have advantages in that they enter the cheap end of the market and are on a better footing with their Governments. There are cases in which Unilever has lost its brand leader position, or has got out of a market entirely (filled soap is such an example practically everywhere). Unilever has also largely relinquished its former produce-buying and distribution activities in tropical Africa.

Question: Should there be a fuller disclosure of information on corporate accounting?

Reply: Unilever will be happy with fuller disclosure if a reasonable basis is established and if competitors, including national competitors, also have to comply.

Question: Have there been cases where the managements of local subsidiaries have felt some conflict in meeting the interests of the country concerned?

Reply: Unilever's managements are often very favourably disposed towards the country in which they work and sometimes 'struggle' with head office in trying to give priority to local conditions. In theory, conflicts are possible, as in transferring dividends, for example, but this hardly ever occurs in practice.

Question: What are the effects of profit transfer, and the activities of multinationals generally, on the balance of payments of developing countries?

Reply: The effect of the ramifications of foreign businesses on balances of payments are very complicated indeed. It is not simply a matter of statistics. Many other effects need to be looked into, including the effect of import substitution.

Question: Should not local funds be reserved for local firms?

Reply: It is difficult to understand how this can be reconciled with the fact that developing countries increasingly want to use their scarce resources to buy shares in the subsidiaries of multinationals. If they refrained from this practice, more funds would be available for lending to local firms.

Question: Should research be geared explicitly to the needs of developing countries?

Reply: Although certain parts of Unilever's technology are universal, consumer needs in different countries make it necessary to modify basic knowledge according to local requirements.

Question: In what respects could international agreements be beneficial to multinationals?

Reply: Something should be done to prevent double taxation in developed countries which discourages foreign investment in developing countries. In this respect, note should be taken of the basic principles established by the International Chamber of Commerce. Although the managements of multinationals such as Unilever feel they are behaving as responsible people, there still seems to be a feeling of uneasiness about them. This could perhaps be removed by providing a central point of arbitration, for example, an international 'ombudsman'.