

A Look at Eminent Persons Report

Studies of MNC activities should recognize many positive aspects of past contributions as well as future good

BY DAVID J. JONES*

The Group of Eminent Persons created by ECOSOC in 1973 to study the impact of multinational corporations on the development process and on international relations released its report early in June 1974. There



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was unanimous agreement on the need for "continuing discussion and work at the international level" on this subject. The report recognized the complexity and diversity of the issues involved and noted that the group was not able to reconcile all its views on every subject touched on in the report.

ECOSOC is further studying the report and has deferred a decision on the recommendations in the report. In January 1975, at the interim session of ECOSOC there probably will be a review of MNC issues, including aspects of the report, government positions with respect to the report, and aspects of other U.N. work on MNC issues. There seems to be some idea of calling the companies "transnational."

I think it is important for the United Nations to understand better the impact of multinational corporations in world development and on international relations and I appreciate the difficult nature of the task faced by the group in this initial United Nations effort on this subject.

The mechanism recommended in the report, namely a Commission and an Information and Research Center, would — or possibly might — contribute to constructive dialogues and studies in this area. The usefulness of the commission will depend, among other factors, on the competence and knowledge of the individual members, who as noted in the report should serve in their individual capacities. Considering the areas of study proposed for the commission a fair proportion of the membership should be drawn from international investors and business, supported by the proposed Information and Research Center.

The lack of a unanimous agreement on other recommendations reflects the fact that issues being studied are indeed extremely complex. This fact, when added to the additional one that some members of the group appear to be particularly aware of the degree of complexity in-

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volved, may indicate that the proposed commission would proceed in a considered manner in its deliberations and in making recommendations.

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In all deliberations on the questions raised on international investment and the multinational corporation, it is important for governments to keep in mind the now-acknowledged role of multinational corporations in providing capital, the transfer of technology, and introduction of essential managerial skills to help meet the development needs of both developed and developing countries. Roughly half of the foreign capital resources flowing to *developing* countries over the past decade was in the form of *private* investment — a total of \$55 billion in the ten years 1963-1972. While recognizing that this represents only a fraction of total capital available to these countries, it is nevertheless a significant amount. In particular, in a period when many governments are reluctant to increase their flow of aid funds, it is critical for governments wishing to pursue development goals not to take actions which may contract rather than expand the flows from private corporations of capital, technology and managerial know-how.

Basic Role

In addition, the basic economic role of corporations, whether national or multinational, can not be forgotten. While the economies of individual nations and the world benefit greatly from their activities, they are generally not established *primarily* to meet *development* goals of nations. Experience indicates that multinational corporations make their greatest contribution to development by carrying out their basic economic missions and thus serving to allocate resources to meet the world's needs.

There are certain *limitations* in the scope of the report, which markedly affect its tone and approach and *weaken* a number of the resulting recommendations:

1. *Almost all* multinational corporations are based in *developed* countries and have about three-quarters of their investments in *developed* countries. However, the report addresses itself almost exclusively to the relations between multinational corporations and *developing* countries and, therefore, does not address itself to the overall impact of multinational corporations on the world's economy as implied by the title and introduction of the report.
2. The report as its authors have drawn it addresses itself to the impact of multinational corporations when it would be more appropriate in most cases to deal with the impact of foreign direct investment.

3. The report assumes that developing countries often hesitate or feel poorly placed to use their power in negotiations with multinational corporations. Recent developments in negotiations between *resource-rich developing* countries and multinational corporations present dramatic examples that these countries *are* in a position to and *do* use their power in negotiations.
4. A number of recommendations are based on assumptions that multinational corporations have an infinite capacity for adjustment and such high returns on investment, overall, that they can accommodate to a wide variety of restrictive governmental actions and still remain viable enough to continue to provide the aspects of technological, managerial and financial capabilities which various countries *wish to continue* to receive.
5. Some recommendations are designed to handle either a few instances of abuses or situations where it is claimed that international investors have the *potential* to raise problems, even though there is *limited evidence* of such current problems.
6. Some discussions of problems consist chiefly of a repetition of assumptions and *allegations without substantiating evidence*. For example, in discussing the international monetary system the report states that more "monitoring" of multinational corporations' activities is necessary. This does not follow from the report's statement that current problems with the international monetary system "may not be caused by speculative activities of multinational corporations." In addition, studies by the U.S. Tariff Commission, the International Chamber of Commerce and others present information demonstrating that multinational corporations have not engaged in currency speculation. If new rules are developed for the international monetary system, they should be applied to all sources of funds and not only to multinational corporations.

I recognize the understanding shown in some parts of the report of the complexity of the development process, and the need for governments to clarify development goals and improve their effectiveness to meet their objectives. Furthermore, the introductory material in the report does acknowledge the contributions of multinational corporations to development, and points out that governments must understand the *limitations* of *multinational corporations* in meeting *development* objectives.

Systematic Approval

This understanding is further reflected in the recommendations involving further study by a commission to determine future directions for the United Nations' efforts. The recognition of the need for a systematic approach to the collection of data and the *complexities of the data collection process* which will have to be employed to provide information to such a center are noted in an appropriate chapter of the report.

In the information area, it is essential that the United

Nations and individual governments not lose sight of the availability of extensive data collections in most developed countries on the operations of multinational corporations. In a number of cases, in particular in the tax area, *governments* already have access to information from *other governments* through bilateral treaties.

A United Nations data center would have to draw on information from these individual governments and from public sources, such as annual reports and *can not expect to receive direct data* submissions from the large number of multinational corporations operating throughout the world. There may be occasion, however, when participation by multinational corporations in forums sponsored by the United Nations would contribute to a constructive dialogue on subjects of mutual interest.

Because of the vast amounts of information which might be made available by governments to the United Nations, it would be necessary to define carefully the questions to be answered to draw on this information *selectively* (i.e., not "fishing").

In commenting on information and reporting procedures, the report notes that the proposed commission should consider convening a group of experts on international accounting standards. In conjunction with this point, a review of the current efforts of the International Accounting Standards Committee to develop common accounting principles would be essential. This has a parallel in the United States "Financial Accounting Standards Based".

If the commission is created we would urge that it *draw heavily* on general studies which are also now under way in the International Labor Organization, the Group of Experts on Tax Treaties, other United Nations organizations, and other intergovernmental and governmental organizations.

Both host and home countries should carefully weigh the impact on their economies' development of implementing some of the many recommendations in the report in specific areas such as technology or industrial relations, especially as they *have not received unanimous support* of members of the group. While the report accepts the benefits of multinational corporations, there have been relatively few detailed studies to weigh the economic effects both direct and indirect of foreign investment. As the report acknowledges the need for more study to *understand multinational* corporations, governments should conduct studies of the long-term economic impact of alternate scenarios *before acting* on these recommendations. The study on the experience of regional groupings in attracting investors, recommended in the report, should be instructive in this regard.

It is also hoped that those less developed countries having risk resources carefully weigh their *own long-term interests* in making direct foreign investments in an open world economy before they give support to measures which might be overly restrictive on international investors from either developed or developing countries.

The governments of developed countries should, in addition, weigh the impacts of some recommendations on their countries' interests. The developed countries of the world, for example, have a major stake in assuring

that their countries *receive an adequate return* on the more than \$40 billion expended annually by their governments, private organizations, and other organizations on research and development. Much of this technology is now made available to developing countries.

The report in recommending revision of the patent system so that costs of technology could be reduced assumes that these vast expenditures would continue to be made in developed countries and supplied to developing countries at very low costs. On the contrary, extensive revision of the present patent system might result in the owners of technology maintaining more extensive banks of "*know-how*" and *patenting less*.

Governments of both developed and developing countries must further recognize that the international investment activities of government-owned multinationals would also be affected by these recommendations.

In summary,

1. Multinational corporations primarily are located in the *developed* world and studies addressed primarily to their relations with *developing* countries can not adequately deal with issues in the international investment area.
2. The prime role of multinational corporations is *economic* and, as noted in the report, governments must understand the limitations of *multinational corporations* in meeting *development* needs.
3. Multinational corporations are acknowledged to be making significant contributions in providing capital, technology, and managerial skills to developing and developed countries, and governments should not take actions which may contract rather than expand such flows.
4. More understanding of the contributions of international investment and multinational corporations to the world's economic development is needed.

Now I will touch upon the specific recommendations contained in the report on technology. The technology transfer process which is of concern to both developed and developing countries clearly will receive increased attention in the future.

In reviewing the report's recommendations, a number of points must be considered if additional efforts are undertaken in the United Nations or other international organizations. In any future studies it would be helpful if more emphasis were placed on increasing *understanding of a number of conditions* which are important in discussions of technology transfer and are generally not developed in the report. These conditions include: the market for the goods or services produced by the technology (either domestic or export); the organizations and technical personnel available, either national or expatriate, to successfully utilize the technology; the capabilities of institutions to develop and update nationals engaged in technological activities and help identify the potential benefits of new technology; and, the capacity of management systems to apply technology in business enterprises. The *capital* necessary for plants or other facilities must of course be available. The United States, Japan, and other developed countries have generally been successful in importing technology

because they satisfy these conditions. Developing countries often can not.

Technology of Choice

As stated in the report, "The first and most important technology may well be the technology of *informed choice*." I agree that it is important to analyze situations in total before deciding on technological solutions and to formulate approaches taking into account interactions in systems and social, economic and cultural trade-offs. The report notes, however, that this approach is used by scarcely anyone today and reflects an awareness of the many problems which must be faced in this area. The U.N. as well as other institutions both public and private should strive to disseminate knowledge in this field, placing particular stress on limitations of available knowledge so that *unrealistic expectations* are not raised.

The Choice of Products

The choice of products available for industry, government and the consumer can be determined through governmental planning mechanisms or market systems. While one can understand the concerns of governments, in particular in developing countries, in balancing product mixes, one believes that the report's recommendation namely — "that before a MNC is permitted to introduce a particular product into the domestic market host governments carefully evaluate the suitability of products for meeting local needs" — can not be implemented on a general basis. This approach suggests that state planning is preferable to market mechanisms in determining the product needs of a country. While recognizing the key role of governments in overall economic planning, experience indicates many problems in detailed product decisions through state planning. Market mechanisms have demonstrated flexibility and relatively rapid response to meet expressed needs.

The report also notes the concerns of host governments on the employment effects of product choices, as some products may be labor intensive, while others will be capital intensive. In making judgments on products, some of the following factors must weigh carefully:

- a. The cost to host country consumers of goods produced on a labor intensive versus capital intensive basis.
- b. The international competitiveness of goods made for export.
- c. The secondary effects which flow from the decision. Capital intensive businesses may, for example, *lead to the development of more support and service industries*.

The Choice of Technology

The report states that "Parent firm technology introduced by multinational corporations is not always suitable to the needs of host countries". It later notes, however, that less developed countries may insist on the *most up-to-date* technology *even though* it may not be appropriate. Given the complexity of technology choices and different viewpoints on what may be best for a country, it is desirable as noted in the report to broadly strengthen local capabilities to objectively judge the appropriateness of technology. It seems

unlikely that centralized screening machinery as recommended in the report could handle more than a limited number of cases.

Must Choose

Ultimately technology choices must be made by a variety of informed buyers, who are knowledgeable concerning their needs (industrial, governmental and private). To the extent appropriate, international institutions might assist in the educational effort required. Senator Javits in commenting on the proposal for screening the appropriateness of technology states: "Government officials are likely to be unqualified to pass judgment on MNC technology, and may opt for a labor-intensive technology for domestic political reasons, thereby shutting off more advance technology inflows." Nevertheless, we are witnessing an increasing governmental role in this area. (Refer to some examples in "The Changing Role of Governments in the Regulation and Promotion of Licensing Arrangements" by K.D.N. Singh, UNIDO Consultant.)

The Source of Technology

Both developed and developing countries have expressed concerns about dependence on technology of other countries. The issue is especially sensitive in developing countries. As developed countries expend more than \$40 billion a year on R&D relative to a few billion dollars in developing countries most of the technology will continue to come from developed countries as noted in the report.

I believe that MNC's already make "a reasonable contribution toward product . . . and process innovation of the kind most suited to national or regional needs." The report's recommendation that *host* countries require MNC's to do this wrongly implies that this has not been done in the past and that governmental planning is generally more efficient than market systems in defining needs.

The same recommendation indicates the need for research in the affiliates of MNC's to meet local needs. In this connection, you are all aware that this had already been recommended to MNC's in the "Guidelines for International Investment" of the International Chamber of Commerce.*

The Cost and Conditions of Acquiring Technology

The report stresses that developing countries "find themselves in a particularly weak position" in buying technology. I would, however, agree with Professor

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- Should, whenever practicable, promote the development of the technological capacity of the host country, particularly if it is a developing country, for example by the training of local staff, assistance to educational institutions, and, provided that conditions for efficient research so allow, by establishment in the host country of suitable research activities.
- Should make the latest suitable technology available in return for appropriate payments, and keep it up to date in accordance with the circumstances of the host country."

Komiya, a member of the Group of Eminent Persons, when he states, "Although it depends on the kind of technology involved, the medium sophisticated technologies that the developing countries need most can usually be supplied by a number of firms that are competing with each other. On the overall question of costs, the following points made by Mr. Komiya must be borne in mind . . ." "reducing the price of the technology should not be considered as the most important policy target. . ." and "if the benefit from superior technology is great enough, buying it even at a high price is to the advantage of the buyer. Buying cheap technology may be merely wasting money."

Reduce Costs

The report recommends that international organizations should work to *revise the patent system* and evolve an overall regime under which *cost of technology* might be reduced. Any improvements in the world's patent system which could help *reduce costs would of course be constructive*. However, the *cost of licensing technology* is primarily due to the *high cost of developing successful product or process technology*. Therefore, effort should be directed primarily to improving the efficiency of R&D (the success ratio) and the efficiency of the transfer process. Any revisions to the patent system that would not protect economic interests of patent holders might reduce the overall level of R&D. It might also *encourage the protection of technology* by keeping technological developments *secret and outside the patent system*.

In further comments on the patent system, the report highlights that patents may be sterilized if a MNC takes out patents but does not use them. Mr. Schaffner, another member of the Group of Eminent Persons, notes . . . "that most countries already provide for *compulsory licenses* under patents that are not utilized locally within a specific period. . . a *compulsory license* is of course only granted with *adequate compensation* for the patent-holder."

The recommendation for the establishment of a world patent bank is worthy of consideration. Because of the complexity of such an undertaking it might be worthwhile to approach on a pilot basis. However, it is necessary to keep in mind that:

- a. MNC's are the key source of technology needed by developing countries and that they would *probably not supply* their advanced technology to this bank.
- b. *Patents alone* seldom provide enough know-how for successful application.

The report has also drawn attention to Decision 104 of the Trade and Development Board on exploring the possibility of establishing a code of conduct for the transfer of technology. In this context, Chapter VII of the ICC Guidelines presents suggested guidelines for the technology transfer process and might serve as an appropriate starting point for discussions in this area.

If work should be done on *technology transfer guidelines* by the United Nations it will be necessary to:

- a. Define very specifically what is being addressed in the technology transfer, i.e., basic research, engineering design, technical service, etc.
- b. Formulate very carefully specific objectives to be