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**Article — Digitized Version**

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Intereconomics

Suggested Citation: Jungnickel, Rolf; Koopmann, Georg (1976) : The role of multinationals in the NIEO, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 11, Iss. 3, pp. 80-83,  
<http://dx.doi.org/10.1007/BF02929633>

This Version is available at:  
<http://hdl.handle.net/10419/139352>

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# The Role of Multinationals in the NIEO

by Rolf Jungnickel, Georg Koopmann, Hamburg \*

**In the context of the New International Economic Order (NIEO) the developing countries are expressing more and more frequently a wish for stricter control over the multinational enterprises. What should be the features of a Code of Conduct for Multinationals?**

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The establishment of a New International Economic Order has been the subject of intensive consultations in the international institutions for some time now. The industrialized countries are confronted with demands which have the aim of a drastic redistribution of the wealth and incomes to the benefit of the developing countries and a fundamental restructuring of the inherited international division of labour. The Third World intends thereby to raise its share of industrial production from currently 7 p.c. to 25 p.c. in the year 2000.

To achieve this objective, the old order governing international economic relations on the basis of the market mechanism is to be superseded by a new one in which considerably more use is to be made of direct regulatory intervention in the production structure of the world economy. This move towards international economic *dirigisme* is mirrored by the role assigned to the multinational enterprises.

## **Demand for Controls**

The various resolutions adopted so far show however significant differences in content. The declaration which was issued in February 1975 by the Raw Materials Conference in Dakar still referred in general terms to "anarchic exploitation" of the developing countries by the multinational enterprises and looked on the latter as an essential cause of the instability of the international monetary system and the consequent disadvantages for the Third World. The "Declaration for the Establishment of a New International Economic Order", which was adopted by the Sixth UN Special General Assembly, and the Second UNIDO Conference likewise called for nationalization of foreign enterprises in accordance solely with national law, i.e. passing over the provisions of international law. Finally the control over multinational enterprises was one of the principal items of the "Programme of Action" adopted at the Sixth UN

Special General Assembly. The aim of the developing countries in this respect is to evolve a Code of Conduct designed to

- prevent interference in the domestic affairs of the host country;
- preclude restrictive practices – especially in foreign trade – and allow for the revision of existing agreements;
- ensure transfer of technology and management know-how on favourable terms;
- encourage the reinvestment of profits and "regulate" the transfer of profits from developing countries.

## **More Conciliatory Attitude**

The resolution adopted by the Seventh UN Special General Assembly by a consensus of industrialized and developing countries generally reflects a more conciliatory attitude to the multinational enterprises. It contains demands for their stricter control only in the general form of a reference to previous UN resolutions. Further to that the industrialized countries are urged to promote private investments which are of service to the technological and industrial advancement of the developing countries.

The wish for stricter control of the multinational enterprises is understandable in view of the undeniable occurrences of economic exploitation and political tutelage, and also justified because the multinational enterprises and the developing countries pursue differing interests. Direction of the multinational enterprises is for this reason

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<sup>1</sup> Cf. Alfons L e m p e r, Die "alte" and die "neue" Ordnung (The "old" and the "new" order), in: WIRTSCHAFTSDIENST, 55th year (1975), No. 5, p. 235ff. On the most important documents connected with the New International Economic Order cf. the compilations in: Federal Ministry for Economic Cooperation, Materialien zur Entwicklungspolitik, Nos. 45, 49, 51, and the Federal Government's second report on development policy, November 1975, appendix 6–8.

necessary in order to enhance the usefulness of their activities from the point of view of development policy.

The developing countries appear however to set out from the premise that they themselves or, prompted by them, the governments of the industrialized countries can at their discretion bring about the transfer of capital, technology and management and marketing know-how within the compass of multinational enterprises through appropriate decisions. In this they overrate the influence of the governments of the western industrialized countries with their market-economy orientation, and misunderstand the private-economy character of the multinational enterprises which do not set out to act as development aid institutions but want to make a profit, at least in the longer term. The developing countries thereby put their own aim of increased industrialization, to which the multinationals can make a substantial contribution, in jeopardy.

#### Contribution to Industrialization

In view of the paucity of the resources in the developing countries there would be only limited scope for the *establishment of new industries* if the cooperation of multinational enterprises were not forthcoming, and it would involve high alternative costs, for the services which the multinationals transfer as a factor package would have to be obtained each by itself from other sources. In practice this would probably prove impossible or much more expensive in many cases. It can certainly not be assumed that public development aid is capable of taking on all the functions performed by the multinational enterprises.

Utilization of the activities of multinational enterprises for the industrialization process does not necessarily imply that national capital and management are debarred. On the contrary, the multinationals show increasing willingness to invest in the form of joint ventures, i.e. of letting native partners participate in their operations. Joint "fade-out" ventures have been set up in several countries, like some Andes Pact states for instance, in which the capital and management are transferred step by step, according to a fixed schedule, from the multinationals to native hands.

The multinationals are most willing to enter into joint ventures with national enterprises for investments with a domestic market orientation (including projects designed to supply integration areas) and relatively little interlocking with the group operations in other countries. Insofar as the production is oriented towards the world market or involves specialized work for group companies abroad, it is important that the multinational enter-

prises should be allowed a substantial measure of at least *de facto* control to facilitate the necessary coordination of their world-wide interests.

#### Advantages over Alternatives

It is because of their world-wide interests that the multinational enterprises seem to be particularly well suited to the establishment of export-oriented industries in developing countries and to improve their *integration with the international division of labour*. The multinational enterprises have an advantage over alternative operators by virtue of the know-how on production techniques concentrated in their hands and their extensive distribution networks — especially for setting up labour-intensive industries, but also for processing raw materials and thus for meeting one essential demand which arises in connection with the New International Economic Order.

The multinational enterprises can also make a major contribution to raising the technological level in developing countries, i.e. to the *technology transfer*, for most of the technological know-how in the market-economy countries is concentrated in private enterprises. In many cases it is their technology which gives the multinational enterprises such a strong competitive basis.<sup>2</sup> The widest possible control over the use of their technology is therefore the precondition of continual technology transfers within the compass of the multinational enterprises. An "appropriate" and transferable remuneration must also be ensured for the medium term. Both these considerations will have to find a place in the desired Code of Conduct for Technology Transfer. They do not rule out supervision of the technology transfer by the developing countries in order to prevent transfer of "wrong" technologies and excessive costs.

The activities of the multinational enterprises have evidently not always yielded the indicated positive results in the past. The developing countries are attributing this in the main to the conduct of the multinational enterprises and the policies of the industrialized countries in their support. This view is reflected by the various resolutions on the establishment of a New International Economic Order.

#### Mistaken Developments in the Past

They ignore however that the developing countries have often themselves encouraged the mistaken

<sup>2</sup> On the question of the special advantages of multinational enterprises over local competition and other multinationals cf. Georg Koopmann, *Warum gibt es multinationale Unternehmen? (Why are there multinational enterprises?)*, in: Dietrich Kerschull, Otto G. Mayer (eds.), *Multinationale Unternehmen — Anfang oder Ende der Weltwirtschaft? (Multinational enterprises — Beginning or end of the international economy?)*, Frankfurt 1974, p. 41f.

developments which have taken place. In many cases their policy in regard to foreign capital had no clear aim at all, or else objectives were pursued by corrupt governments which were inconsistent with the needs of the economy as a whole. In quite a few cases, moreover, an overdrawn policy of import substitution has given rise to uneconomical productions which were unnecessary or even harmful under development aspects but, protected by high tariff walls, provided substantial profits for the investor.

For these reasons there is still considerable scope for improvements in the elaboration of a consistent policy towards the multinationals by the developing countries. It would have been a reasonable and necessary function of UN Programmes of Action to evolve guidelines for such a policy.

Direction of multinational enterprises in accordance with development-political aims can only achieve its purpose — to improve the cost-benefit relationship in favour of the developing countries — if it

accepts the private-economic character of the multinational enterprises, i.e. their profit and growth aspiration, and

makes purposeful use of the special capability of the multinationals for cost-saving coordination of economic activities in different countries.

### Improvements for the Future

Justice must be done in the practical elaboration of this policy to three considerations above all: First, the "rules of the game" for the activities of multinational enterprises must be clear and binding for a fairly long period. They must cover

definitions and priority ratings for the criteria on which investment projects are to be judged (effect on employment, balance of payments repercussions, etc.);

identification of areas in which foreign investments are unwanted;

rules for national participation in foreign enterprises;

provisions for profit transfer, capital repatriation, local borrowing, pre-production imports, etc.

Plain and abiding rules of this kind have a considerable positive effect on the propensity to invest and at the same time strengthen the bargaining position of the developing countries, for foreign investors tend to be more willing to put up with restrictions and alter their modes of conduct if they come upon constant institutional parameters.

Since clear rules must be laid down for the investments by multinational enterprises, the terms on which enterprises may be nationalized are also of vital importance. In this context it may be regarded as an important step that the developing countries at the Seventh UN Special General Assembly no longer insisted on a right of nationalization irrespective of the international law. It is true that nationalization problems have so far played no major role in the most important investment countries in the Third World in particular<sup>3</sup>, and that the multinational enterprises affected in individual cases certainly often mean something different by respect for international law than do the host countries. The fact remains however that a general tendency towards national — and thus possibly arbitrary — determination of the compensation in the event of expropriation would probably impede investments especially in the politically least stable countries.

Secondly, any direction of multinational enterprises should be flexible in operation. Joint ventures with national firms for instance will be the more difficult to pursue the more closely the foreign establishments are integrated into a world-wide division of labour between group enterprises (e.g. through production of primary and intermediate products for other group enterprises). Similar observations apply to demands to secure the largest possible national share in production: To remain internationally competitive, export-oriented investment projects must as a rule rely much more on foreign supplies of accessories than do enterprises which confine themselves largely to supplying the domestic market of the investment country. Distinctions of this kind should be taken into consideration for a rational policy towards the multinational enterprises which aims at enhancing the investments and their benefit to the developing countries.

### Demands on Economic Policy

Another important prerequisite for efficient operation of multinational enterprises in the development process is, thirdly, a steady general economic policy with clear development priorities, favouring expansion of the markets and improving the conditions for production. It will be all the easier for the multinational enterprises to take their place in the framework of the national development plans as has been demanded time and again in the various resolutions, the more consistently the work of planning is carried out. Moreover, the willingness of multinational enterprises to reinvest their profits in developing countries and bring in more

<sup>3</sup> Cf. United Nations, Permanent Sovereignty over National Resources, Report to the Secretary General, A/9716, September 20, 1974, Annex, p. 1ff.

capital and technology depends decisively upon their expectations concerning the development of the markets. This is clearly brought out by various studies of the motives for investments in developing countries.

Besides, the distribution of the investments over the various countries reveals clearly that the investors prefer the larger and dynamic markets. A policy orientated towards market expansion therefore tends to promote at the same time the propensity to invest and the integration of the foreign enterprises with the national economy. Efforts to strengthen the economic integration between developing countries on a regional or sub-regional level assume increasing importance in this context. The small and least developed developing countries in particular cannot achieve a substantial market expansion except by closer cooperation.

A matter of concern is also the improvement of the production conditions, especially by selective infrastructural measures. If foreign enterprises engage in developing countries only in the final manufacturing stages or in assembly work, the reason is often to be found in inadequate infrastructural facilities in the country in which they have made investments. The developing countries are hampered in taking remedial action by their limited resources. They depend, also in this respect, upon active support by public and private development aid institutions – a point which has been emphasized in the UN resolutions.

The governments of the home countries of the multinational enterprises should additionally take appropriate measures in favour of private investments in developing countries. They should also consider the least developed countries and match the assistance to the development benefit of the investment project. The developing countries on their side must accept that in an economic system bearing the stamp of the market economy the

governments of the multinationals' home countries cannot dictate to private enterprises which of them should invest how much in which other countries and with which technology.

#### **Starting Points for a Code of Conduct**

These demands are starting points for the evolution of codes of conduct for multinational enterprises and the transfer of technology. Such a code of conduct for governments and enterprises should not however lead to the installation of an international bureaucracy which would find its scope for dealing with concrete disputes in any case limited by the sovereignty claims of the affected states. It would for this reason have to confine itself to formulating general principles; it could nevertheless foster a disposition to adapt modes of conduct on a basis of mutuality and to create thereby better preconditions for a reconciliation of interests.

A Code of Conduct cannot however be a substitute for a national policy towards multinational enterprises. The practical elaboration and implementation of the measures must be the task of the developing countries themselves. A rational policy however presupposes the availability of comprehensive information about modes of conduct and alternatives to the multinational enterprises. The Information Centre on Multinational Enterprises which was recently set up at the UN and the projected Technology Transfer Information System can undertake important functions in this respect. If the developing countries see at the same time to the creation of an investment climate which keeps the inherent risk and uncertainty within tolerable limits and leaves scope for entrepreneurial decisions, the multinational enterprises will be able to contribute significantly to the improvement of the developing countries' participation in the international division of labour.

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