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International Management and Development Institute

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September 19, 1977

Executive Registry
 77-1334/2

Paul [unclear]
T. Jones

Admiral Stansfield Turner
 Director of Central Intelligence
 Washington, D.C. 20505

Dear Stan:

We are looking forward to your participation as our dinner speaker for the December 5 Joint Council Quarterly Meeting, to be held in the Kennedy Center. We will be writing you in the next few weeks with further details.

In the meantime, however, we would like to provide you with the enclosed copy of our just-published Top Management Report on "Government-Business Cooperation in Meeting World Needs." The Report presents parallel statements by Chiefs of State and Corporate Chief Executives on what governments expect of foreign international corporations -- and what international corporations expect of foreign governments. We are honored indeed that the introductory statement is by President Jimmy Carter.

With best wishes.

Cordially,

Gene E. Bradley
 Gene E. Bradley
 President

EXECUTIVE REGISTRY FILE *Pub Affs*

Stan: If your schedule ever permits, I'd like to invite you for a working breakfast or luncheon in our Board Room to brief you on our goals, programs & activities.

Top Management Report on:

**GOVERNMENT-BUSINESS
COOPERATION IN
MEETING WORLD NEEDS**



H. E. José López Portillo
President
Mexico



H. E. Takeo Fukuda
Prime Minister
Japan



H. E. Suharto
President
Republic of Indonesia



T.R.H. John Malcolm Fraser
Prime Minister
Australia



H.E. Anwar El-Sadat
President
Arab Republic of Egypt



H.E. Giulio Andreotti
Prime Minister
Italy



H.E. Johannes Marten den Uyl
Prime Minister
The Netherlands



T.R.H. Roy Harris Jenkins
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Former President
Pullman Swindell



C. Peter McColough
Chairman & CEO
Xerox Corporation



U.S. President Jimmy Carter provides the introductory statement for this *Top Management Report* on "What Governments Expect of Foreign International Corporations—and What International Corporations Expect of Foreign Governments."

Government-Business Cooperation In Meeting World Needs

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This *Top Management Report* is intended for senior executives of international corporations, government officials, university professors, and others who share a professional interest in government-business relationships and the role of U.S. international corporations in the global community.

The International Management and Development Institute wishes to extend its sincere appreciation to the U.S. Department of State's Bureau of Educational and Cultural Affairs and those senior representatives of business, government, and private organizations whose cooperation and support made this *Report* possible.

In publishing the *Report*, we believe that great educational value may be derived from the presentation of diverse—and sometimes conflicting—viewpoints on this subject. It should be noted that the views expressed by the authors are their own, and not necessarily those of this Institute or any of the organizations or individuals with whom the Institute is associated.

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FOREWORD

What Governments Expect of Foreign International Corporations— and What International Corporations Expect of Foreign Governments

This *Top Management Report* brings together policy statements by Chiefs of State, Heads of Government and corporate Chief Executive Officers (CEOs), setting forth their views on how government and business leaders can work more closely together in advancing our common interests and meeting the needs of society. Included in this "forum-in-print" are messages by the chief executives of NATO and the EC Commission.

The idea for this issue is drawn from an earlier *Top Management Report*, in which we published our interview with His Imperial Majesty Mohammad Reza Pahlavi, Shah of Iran, on "Government-Business Cooperation in Iran's Socioeconomic Revolution." The response was so favorable that it was decided to devote an entire *Report* to a series of discussions with government leaders around the world, and to combine them with statements by leading corporate executives.

To develop the theme of government-business cooperation in the world community, Gene and Terry Bradley, as co-founders of IMDI, conducted the research and the interviews with government leaders from other nations—personally seeking their views on these four points:

1. Their policies toward foreign trade, investment, joint ventures, and other commercial ventures—and what they expect from it.

2. Examples of success (through technology transfer, stimulus to economy, taxes received, exports generated, management acquired, etc.).

3. Growth areas and opportunities where international corporations are especially welcome.

4. Terms of the contract, such as codes, laws, limitations, corporate citizenship, expectations from the corporations.

In parallel, and to balance the views of the governmental leaders, we invited the chief executives of five major multinational corporations to address the following four points:

1. Reasons for investing their necessarily limited resources in countries overseas.

2. Factors contributing to a favorable investment climate.

3. An inventory of the tangible benefits they have brought to host communities.

4. A statement of their own corporate codes and what they feel they must expect from host governments.

Response to our invitations for guest statements was outstanding. Cooperation—beginning here in Washington, D.C., and extending to the governments of Mexico, Japan, Indonesia, Australia, Egypt, Italy, and the Netherlands, plus NATO, the European Community and corporate headquarters in the United States, Italy and Switzerland—surpassed the finest of cooperation we can recall in our publishing experience. We are honored to introduce this global-community "forum-in-print" with an introductory message from America's own Chief of State, President Jimmy Carter.

Following are highlights of discussions which Gene and Terry Bradley conducted overseas.

Highlights of Discussions

Summarizing a nine-nation series of discussions is a difficult job, especially in just a few pages. We were privileged to meet not only with the guest authors whom we interviewed or from whom we obtained policy statements. In addition, we exchanged views with several score others—representatives from both the host governments and American embassies; from American business and multinational companies headquartered in the countries we visited; from international organizations (International Chamber, GATT, ILO, UNESCO, OECD); and from academia. In all, it was a magnificent experience—encouraging, enlightening, sobering, even in some areas (such as Eurocommunism) somewhat frightening, but in balance, overwhelmingly on the encouraging side.

Impressions on the political climate for international business

Speaking from the vantage point of the American observer, we would report a substantial improvement in the business climate for American business compared to even a few years ago. (Compared with a de-

cade ago, the change has been remarkable. We recall the sharp pronouncements at that time by Jean-Jacques Servan-Schreiber, who warned the world to guard against "*The American Challenge*" and American "corporate imperialism.") Today, if there is any single theme in the countries we visited, it is, perhaps, "Yankee, stay here. *Don't* dis-invest. Don't fire employees, or 'export jobs.'" The sluggish state of the world economy, coupled with growing uncertainties over the recovery itself, has contributed to the desire by host governments for U.S. investments—even as U.S. companies grow less enchanted with the idea of increasing their overseas investments.

The change is equally profound—compared to a decade ago—in the minds of American entrepreneurs doing business in sensitive overseas environments. Economically, intellectually, emotionally, they are part and parcel of the host environment.

Need for United States initiatives in international economic affairs

Again and again, around the rim of Asia, through the Middle East, into the heart of industrialized Europe, and then into Latin America, we heard the same theme: "We need, want and welcome American initiatives, for only America has the political will, industrial strength, management, technology, and money to get the world economy moving." Our friends cautioned that they do not need or want an arrogant or domineering America; but they truly want our initiatives—on a self-respecting basis.

In balance, our foreign friends like what they see of the new Administration. As one business leader observed, world reactions have gone through three phases:

- *First*, wonderment, "Who is Jimmy Carter?"
- *Second*, approval—of the first round of high-level appointees.
- *Third*, concern mixed with hope as to what policies President Carter will actually adopt that will affect their future.

The "hope" seems to outweigh the concerns at this early stage. They *want* to believe in a fair, free liberal trade and investment world community, spearheaded by the U.S. Government (both Administration and Congress). But one senses that America is under a microscope; and that any major faltering, lack of confidence, or backsliding on our part might well be magnified out of proportion by our friends overseas, with adverse economic and commercial consequences for all concerned. It would not be difficult—it would be all too easy—for protectionist forces to get out of hand and to trigger the trade-and-economic battles that none of us want.

Nationalism versus internationalism in the world marketplace

Nationalism is by no means dead, either in Washington or in overseas capitals. But fortunately, it is more passive than active for the time being.

It is obvious to other countries that U.S. foreign investments are *not* surging ahead at the rate our foreign friends might like—in Indonesia, Australia, Egypt, or anywhere we visited. Americans are exercising caution for a variety of reasons.

For example: how can a new investor in Indonesia know that the "oil experience" will not be repeated in other fields? (Yet U.S. rubber company executives will tell you that *their* experience in Indonesia has been very good—among the best in the world.)

How can an investor in Australia know how successful Prime Minister Fraser will be in winning his battle against soaring wages and inflation? (It is evident that the Prime Minister is fighting valiantly and intends to win.)

How can an investor in Egypt work around the many obstacles, including horrendous bottlenecks and political uncertainties? (Yet, one can see clear, early signs of progress. As Allis-Chalmers CEO David C. Scott reported in his capacity as Chairman of the U.S. Section of the Egypt-U.S. Business Council, "There are many persuasive reasons for U.S. companies to invest in Egypt.")

If one had to reach a single generalization, it would be this: more and more nations are now recognizing they must do a better job in competing for foreign investments and be prepared for truly competitive negotiating. The immediate task, it seems to us, is for America to encourage this trend through imaginative initiatives and strong negotiating.

The mounting importance of improving working relationships with labor

IMDI's priority has always been to bring government and business leaders together for the purpose of exchanging views on issues of major common interest, in fulfillment of our own mission, which is "to build closer bonds of unity among men and nations through better management practices and international cooperation."

While we have not excluded labor, neither has it been in the central stream of IMDI's plans and programs.

This trip brought home the explosiveness of the labor issue—especially in the minds of European affiliates of U.S. companies. In The Hague, the issue seemed of overriding importance.

Rather than cite statistics, we shall refer to just one example, the case of the corporate president who felt

he *had* to dismiss a "troublemaker," but could not because of labor policies and pressures. So the CEO, knowing that a firing was impossible, instructed the man simply to sit at home and receive full pay for doing nothing for the next three years until his retirement. So it happened. But the union said, "Not so. You deprived this man of his right to work. Therefore, *in addition*, give him a cash settlement"—which the CEO was compelled to do.

On the positive side, we witnessed heartening examples of major corporations making outstanding use of "work councils" to build employee understanding on corporate goals and the need for being competitive and earning profits. It is a mixed bag, alarming and encouraging—an issue obviously demanding mounting corporate attention.

**"Corporate credibility"
now a very major
international priority**

Here in the United States, corporate top management is keenly aware that "corporate credibility" has become a serious issue. In last year's Conference Board report of critical issues, CEOs rated as their number one concern "growing distrust on the part of the general public." Our sampling of *overseas* top management concerns was selective, not exhaustive. But again and again, the response was similar; multinational corporations of *all* nations (not just of the United States), are under suspicion, often attack; they are not credited by the public (including government and labor) for their positive contributions to the communities in which they do business. Here are several representative judgments:

- *From a high U.S. Government official in Europe*—Demonstrating and documenting "corporate social responsibility" should have *highest priority*, especially in France. Explaining the facts about business is a necessary response to the increasing strength of Eurocommunism, and the damaging publicity currently facing the multinational. There is a definite bias *against* MNCs.
- *From a Swiss corporate CEO*—In response to numerous misconceptions surrounding MNCs, it is important to focus on the positive role of the multinationals, especially in the context of the "North-South Dialogue."
- *From an Italian corporate CEO*—We need recognition for companies as corporate citizens. And for our part, within companies, we need acceptance of codes for a "clean MNC."
- *From a French corporate CEO*—Recognition by European managers that business is in jeopardy is a relatively new phenomenon. But CEOs are now alert. They are concerned and want to take constructive action to handle the problem with "understanding."

**Growth of Eurocommunism
and the need for
affirmative business response**

The likelihood that the French Communists may, within a year, be "helping" to govern France was viewed with apprehension wherever we went. While we were in Europe, business executives from the Patronat Francais met with the leadership of the Communist Party, a meeting which degenerated into a shouting match as the Communists defined their goals vis-à-vis business once the Communists had won in the elections.

What business and government leaders expressed to us were *the stakes*. At stake, in the long run, is not just profitability. At stake is the private enterprise system—or, if you will, the "mixed economy" in which private business works in harmony with government on such common objectives as R&D, production, economic growth, job creation, and attainment of national objectives.

True or false, there is mounting belief that our present economic system is *not* meeting the basic needs of middle- and lower-income families whose modest standards of living have been seriously eroded by the ravages of inflation. "Business credibility" plummets as the promises of Eurocommunism grow bolder and more eloquent.

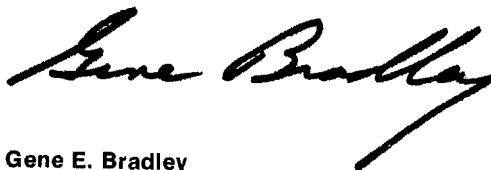
Therefore, this conclusion: CEOs are in the very forefront of the battle of social systems. And "corporate credibility"—or the lack of it—is becoming an unavoidable issue.

* * *

The impressions summarized above reflect the challenges facing government and business as they strive to meet the needs of an increasingly interdependent world. How to come to grips with these government-business concerns is a subject to be addressed in this and future *Top Management Reports*. ■



Prof. Edward C. Bursk



Gene E. Bradley

SEPTEMBER 1977



White House Photographs

Department of State Photograph With President and Mrs. Lopez Portillo



With President Sadat

This *Top Management Report* presents the views of Chiefs of State, Heads of Government and leaders of international organizations. Those who have already met with President Carter are pictured on this page.



With Prime Minister Andreotti

From the President of the United States . . .

With EC Commission President Jenkins
European Community Information Service



With Secretary General Luns



White House Photograph

White House Photographs

White House Photographs




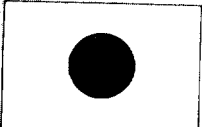
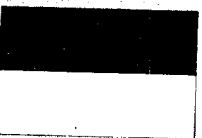
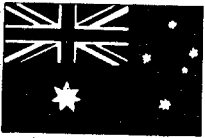


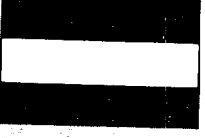
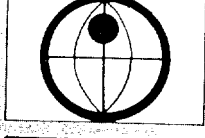

With Prime Minister Fraser



With Prime Minister Fukuda

GOVERNMENT SECTION:

What Governments Expect of Foreign International Corporations

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THE WHITE HOUSE
WASHINGTON

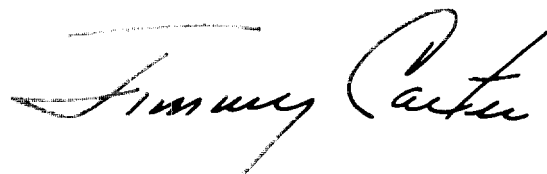
July 7, 1977

People everywhere are increasingly aware that all economies are becoming more and more interdependent in terms of available resources and markets. As a sovereign nation and as a member of the world community, the United States gladly shares with others the opportunities that exist for all, and in turn welcomes their support in resolving common economic problems.

The most urgent need at present, both at home and abroad, is to create jobs without stimulating inflation so that the improvement in the world economic situation which began in 1975 may continue.

The greater share of the burden involved in achieving this objective will fall on the industrialized nations and on international corporations. They have proved successful in disseminating the technical and managerial skills on which we must depend if the expectations of twentieth century mankind are to be fulfilled.

It is with this in mind that I commend the valuable contribution made by the International Management and Development Institute and the editors and staff of Top Management Report in providing such a useful forum from which both nations and businesses can benefit.



THE WHITE HOUSE

WASHINGTON

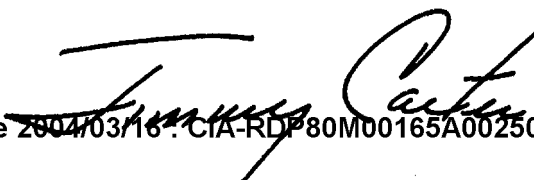
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H.E. José López Portillo, President

In the personal interview which follows, Mexico's President, José López Portillo, speaks with conviction and foresight about his Administration's efforts toward strengthening the Mexican economy and becoming more attractive to foreign investment. Highlights:

- President López Portillo is moving Mexico forward in a national effort to challenge unemployment and inflation and to respond to critical needs of his countrymen with a program called the Alliance for Production.
- Emphasis is being given to increasing domestic production—especially in the areas of food and energy—and to strengthening the country's export capability in such fields as agriculture, mining, chemicals and petrochemicals.
- Mexico's new approach to industrial development encourages foreign investment and continues to value the high technology, financing, jobs, education, and markets it provides.
- President López Portillo welcomes companies which "respect the interests and sovereignty of the state in which they operate" and which respond to the social needs of the host country.

Mr. President, to begin, may I note that published reports, along with conversations with American executives, have led me to understand that the climate for cooperation between your country and the United States is most favorable. I have also received many favorable comments regarding your efforts to stabilize the economy and combat inflation. In this light, would you please briefly outline the measures you are taking to strengthen Mexico's economy at this time?

We have taken two kinds of measures: some to maintain the structure of development and others to respond to critical needs. They are joined in a program that I have called the Alliance for Production.

We have this age-old problem in Mexico: a population that has not satisfactorily received the fundamental needs of life, and wealth that is not evenly distributed. This problem is written throughout our history, and it explains all our social strug-

gle. It has now become intermingled with the present economic situation which is characterized by an inflationary process and a growing burden of unemployment. This is the complex of issues that rests on top of the basic structural problem. Therefore, we are attempting a national development program based on administrative, fiscal and political reform.

We have established two basic priorities in this program: food and energy. We are designing and putting into effect a plan for food production which has already had some favorable results, not totally satisfactory, but with indications that we are on the right road.

In energy resources we have had, on the contrary, great success. Just the other day I was informed that two very promising new oil fields have been discovered, one on land and one offshore, which gives us additional assurance of our self-sufficiency in energy. These are the two

large development priorities which I want to solve by increasing production, but of course without ignoring other economic and social programs.

The feeling that I have received since arriving in Mexico, based upon discussions with corporate officers, is that even though the economy is stable—rather than growing—this year, the right measures are being taken now; and next year and the years beyond should show continuing upward improvement.

Yes, we certainly hope so. Last August, we saw the need to abandon our position of a fixed exchange rate with the dollar because we were in an inflationary spiral which had to be solved through reliance on our political stability.

The country was in this condition when I took office, and it was under these circumstances that we have had to take action. We know that it will take no less than two years to solve the basic problem, but we have already made progress in several

JOSÉ LÓPEZ PORTILLO, Mexico's President, shown here in his interview with IMDI President Gene Bradley, served as Finance Minister in the Government before his election to the Presidency in September 1976. Trained as a lawyer and political scientist, President López Portillo entered government service seventeen years ago and since then has held a variety of posts under different Administrations. He brings to his position an extensive academic background, which includes teaching law and political science, as well as authoring several books and studies.



MEXICO IN BRIEF*

LAND: 1,978,800 km²; 12% cropland, 40% pasture, 22% forested, 26% other (including waste, urban areas and public lands).

POPULATION: 63,192 (January 1977), average annual growth rate 3.3% (current).

LABOR FORCE: (1973): 15.7 million (defined as those 12 years of age and older); 39.5% agriculture, 16.7% manufacturing, 16.6% services, 16.8% construction, utilities, commerce, and transport, 3% government, 7.4% unspecified activities.

GDP: \$78.6 billion (1975), \$1,350 per capita; 74% private consumption, 7% public consumption, 21% domestic investment (1974 est.); net foreign balance —2%; real growth rate 1975, 4% est.; real growth rate 1966-75, 6.3%.

MAJOR INDUSTRIES: Processing of food, beverages, and tobacco; chemicals, basic metals and metal products, petroleum products, mining, textiles and clothing, and transport equipment.

EXPORTS: \$3.31 billion (f.o.b., 1975); cotton, coffee, nonferrous minerals (including lead and zinc), sugar, shrimp, petroleum, sulfur, salt, cattle and meat, fresh fruit and tomatoes.

IMPORTS: \$6.58 billion (c.i.f., 1975); machinery, equipment, industrial vehicles, and intermediate goods.

MAJOR TRADE PARTNERS: Exports—60% U.S., 10% EC, 4% Japan (1975); imports—62% U.S., 17% EC, 5% Japan.



areas, including achieving a substantial reduction in the deficit in our balance of trade, and controlling inflation. The rate of increase in inflation is beginning to decline, but we have not yet been able to reduce it to the U.S. level. Since our economy is so closely linked to the American economy, and as long as we are unable to control domestic inflation—or at least reduce it to the American rate—we cannot completely control the situation. We are working toward this goal. We are controlling and channelling public expenditures following an agreement with the International Monetary Fund. We have adjusted the deficit of the public sector. We have established a limit to foreign financing, and we have limited the coining of new money to maintain harmony with the reserves of the Central Bank. We have also directed public expenditures into priority activities, principally the most productive. This, in the broadest of terms, is what we are doing and what is now beginning to produce results.

What do you see as the contribution of foreign private capital investments in your economy?

I consider it as a substantial part of our development process. We have often said that we need the technology, the financing and the markets foreign investments have to offer.

We have resources—human as well as material. We have an internal market and the potential for growth. If we can establish—and they already exist—the operational bases of a balanced and just relationship, we can concern ourselves with the need for a good business climate for everyone, with a businesslike attitude, but with fairness and justice. This we also are doing successfully.

I would remind you that we have a mixed economy, in which it is possible to arrive at a series of very interesting combinations in which we can bring together national as well as foreign businessmen with the state or with state-run companies. This guarantees everyone's best interest. We have a law that clarifies our relationship with foreign investment; and, as I often say, this law is selective but not restrictive. I think that the field is open and the time is propitious.

At this point, in the United States, corporate executives, who must jus-

tify their investments to their shareholders, are being quite selective as to where they invest. What are you doing to attract foreign investments to Mexico in light of worldwide competition for scarce capital and technology?

I understand very well the caution on the part of foreign investors. What we offer in our country are very precise laws, political stability, usable human resources, a domestic market that can support large as well as small-scale operations, and a legal and democratic system. This, I believe, should be enough.

Are you satisfied with the pace and scale of foreign investment coming here, or would you like to see it accelerated; assuming, of course, it is in keeping with the necessary codes and regulations?

We are not satisfied with the rate of investment. It is evident that we would like to stimulate more private investment on the part of Mexican citizens, as well as compatible foreign investment that could help us, and to which we could also contribute.

Permit me to explain. The period through which the country is passing requires more rigorous analysis than in the past. When we have problems of monetary stability and domestic credit, it is understandable that the investor should want to think carefully before investing, and this is the way it should be, because we want no failures.

We are making every effort to improve conditions in our country so that Mexican investors—as well as foreign investors working in accordance with our laws—who are willing to share the risks with the country, take these risks with full awareness of what they are doing. We have urgent needs, but we do not want to be hasty. As Napoleon said: "Dress me slowly because I am in a hurry."

Very good. Could you define, Mr. President, some of these needs? I am assuming that the investments that you would like to attract are those that have high technology, that contribute to the creation of jobs, that produce low-cost but high-quality consumer goods, and that lend themselves to the training of national Mexican managers.

Yes, and I would add to your list investments that would make it possible for us to export. More spe-

*The facts cited in this country brief and in those for Japan, Indonesia, Australia, Egypt, Italy, and the Netherlands are from the *National Basic Intelligence Factbook* (January 1977) published by the U.S. Government Printing Office.

cifically, technology and capital that would make use of our human and natural resources to strengthen the export capability of the country. Because the industrial development approach followed by the country in the past has already exhausted its larger possibilities, it is no longer a growing source of employment. It was based on simple import substitution, and this has brought about a pattern of growth oriented toward a social class with consumption habits that do not permit an adequate expansion of the market.

We also run the risk that, with the phenomenon of inflation, profits are sought not by expanding the market, but by increasing prices, even to the extent of reducing the market. This is a mistaken growth pattern. That is why I agree with the idea of expanding the base of production in order to satisfy an ever larger internal market while opening up greater and greater export possibilities.

What would be some of the basic fields or industries to which you give priority in your development?

I would divide this into two parts. As far as the domestic market is concerned, we seek to introduce productive processes to satisfy basic needs which, under the present structure, are outside the reach of the masses of population. That is why, on many occasions, we have said that one of the basic problems of this country is that we have not been able to convert real needs into real demands. This is the basic problem of the domestic economy.

Insofar as industrial development is concerned, we have to integrate vertically because our growth, based on indiscriminate import substitution, made us neglect basic aspects of our industry. We lack heavy industry in satisfactory amounts. We also lack a machine tool industry. We have a growing steel industry, which was neglected and to which we are now giving priority.

As far as our possibilities to produce for export abroad are concerned, we have a large range of agricultural products that we still export as raw materials. I am referring to cotton, to coffee, and in the past to sugar, which we do not now export. We have many vegetables, yet we do not have a satisfactory agro-industry which we could foster. We could say the same thing about

mining. Basically, we export raw materials. We have also begun to export some manufactured products, but there is an enormous range of possibilities, as there also is in the chemical and petrochemical areas.

There are many fields in which we could use industrial processes pointed toward exports—cement, for instance. In small, medium and large industry there are enormous possibilities.

In most of these that you have mentioned, would you welcome the help of American partners in filling these gaps?

We do have some now, and we would like to have more, of course.

I would like, Mr. President, to move into another dimension of industrial life, under the heading of corporate citizenship. Increasingly over the last ten years, chief executive officers of U.S. corporations have recognized that they must go well beyond the basic function of creating goods and services.

That is important.

I have learned that a number of American companies have been working with your officials and with local communities in education, management training and social involvement. I would like to say a word or two on these companies' activities. For example, Ford Motor Company, with the Ministry of Education, and with the local communities, has jointly helped to build over 100 schools. Union Carbide has donated a fully-equipped workshop to be used in the State of Mexico, and it has also instituted a pollution control program. Singer Mexicana trains more than 500 public schoolteachers a year in the use of sewing and knitting machines. Chrysler donates motors, transmissions and automotive parts to technical schools. And recently I learned from the President of Colgate-Palmolive, Sr. Rudolph Perez, that his company has been working with the Department of Physical Education and Televisa in sponsoring weekly track events entitled "Stars of Tomorrow" with 37,000 participants. Mr. President, it seems to me that the corporation has an enormous opportunity for education, management training and social involvement. Do you welcome this kind of activity?

Of course. I believe that this is the real meaning of modern enterprise—

it understands contemporary problems and, in so doing, promotes this attitude which gives social meaning to business. Increasingly these companies leave behind the mercantilist spirit by carrying out what we understand to be the social function of wealth. Beyond the company is the society that allows it to do business; and the healthier the society, the better off business will be. Understanding this is to understand the future and to adapt one's self and the world to the needs of a future where social meaning will be ever more necessary if we want to preserve peace.

Mr. President, multinational corporations are being viewed today from many vantage points, some positive, some negative. One view is that the multinational is a transmitter of values and ideas between nations. What is your opinion?

I think that this concept is very interesting, and I believe it stems from what is for me a very important understanding. National solutions have become less adequate every day. And we must begin to think of alternative ways of uniting the different interests in order to state the problems more clearly and solve them more adequately. Anything that makes progress toward understanding, cooperation and respect seems to me to be in the right direction, and in this effort there should be no borders between states nor between corporations. Anyone who can advance the cause of understanding and cooperation must do so.

Turning to the subject of U.S.-Mexican relations, has there been any change in U.S. policy toward Mexico, or in Mexican policy toward the United States, since the recent change in the presidencies of both countries?

Yes, a fundamental change.

I had the great pleasure and honor of meeting with Mr. Carter. I was honored to be the first foreign Head of State to visit Washington in the Carter Administration, and the results of that meeting were extremely important for us. We were able to discuss our problems. Following an agenda agreed upon by Mr. Carter and myself, a high-level working group—at the Secretariat level—will discuss these problems in order to find solutions.

Several groups were formed just

recently, some to study so-called political problems on the level of Ministries of Foreign Relations—problems of border delimitation and problems of water. Another group is studying problems which we have labelled social: basically drug trafficking and the movement of undocumented workers. Still another group will study economic problems: fundamentally trade, finances, tourism, energy, and foreign investment—understanding that all of these problems are part of one package. There are no isolated problems; everything is part of everything else.

If, for example, we want to solve the problem of undocumented workers, we must understand that the problem lies in Mexico's economic situation. This will improve if we achieve a better balance in our very unfavorable trade relations with the United States. To the extent that the United States buys more of what we have to offer, we can provide work for Mexicans in Mexico. Many will then not feel the necessity of going to the United States to look for work which they cannot find here and could have, if we could sell your country more of our products. This issue was very well understood between us and the atmosphere for cooperation is excellent. Recently I met with the Congressional delegation that came to the XVII Interparliamentary meeting and the same spirit prevailed in our meeting.

I sense a substantial change in attitude, in comprehension and in understanding, and I can say that I felt the personal friendship of Mr. Carter.

We could feel this sense of friendship from the newspaper accounts. Along these same lines, do you have any comments in general regarding U.S. policy toward Latin America? Is there anything specific that you would like to see?

Well, we had the opportunity to talk with Mr. Carter about this, because he was very open with us. We not only discussed issues relating to Mexico. Indeed, we emphasized to him that Mexico is representative of what is happening in Latin America.

We told him that we had the impression that in the past the United States felt it had only two problems in Latin America: Panama and Cuba. But there were and are many more problems.

No. 1 is the trade problem, which is heightened in the case of Mexico by our geographic proximity, but which exists in all the countries of Latin America. There exists an enduring mixture of trade, financial and monetary problems which demands a coherent U.S. policy toward Latin America.

We recognize, on our part, that there has been no Latin American policy with respect to the United States and, what is even worse, no Latin American policy with respect to ourselves, the Latin American nations. And there is a need to bring order to this region as a contribution to world order, since it is a very clear example of the relationship between a rich and powerful country—the most powerful in the world—and the developing countries. We even dared to say before the U.S. Congress that it must be wonderful to be powerful, but that it was a great responsibility also.

My final question, Mr. President, relates to the subject of understanding the value of foreign investments. In the United States and in many countries, there is great misconception of the role of the multinational corporations and what they can do to stimulate growth, exports, jobs, and the quality of life.

I think that is unfortunate.

I have seen the figures—that the American Chamber of Commerce gave me—for what foreign investment has done in Mexico: that 72 percent of the profits are reinvested, that 99 percent of the employees are Mexican, that 74 percent of the senior executives are Mexican, that exports have been increased 300 percent between 1970 and 1974, and that there is a great deal of research and development. But these facts do not seem to be well-known—in the United States or in other countries. Do you have thoughts as to what can be done to promote better understanding of the role of world trade and investment?

This is a matter of the greatest interest to me, and I would link it with some of my previous comments. It is evident that the world daily is becoming more interdependent. It is impossible even to conceive of a country which is totally and completely self-sufficient—not even the

United States. Therefore, there is a need for trade between countries. Within this context, and in order to fill these needs, the multinational or transnational companies have developed—combining capital, technology and sales at levels that were barely imaginable previously.

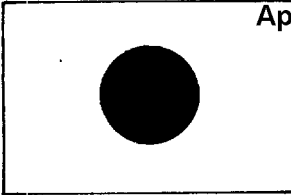
Some of these companies respect the interests and the sovereignty of the state in which they operate; and they exemplify the positive practices that you have mentioned.

But there are others which I would call homeless, faceless. They belong to no nation, respect no sovereignty and care only for their own interests, which are no longer rooted in any nation. They act only according to their own selfishness and in pursuit of their own concerns. They have no respect for national interests. For instance, if a corporation of this kind is attempting to develop a resource in one nation, and then finds that another nation offers better conditions, it will delay the development of the first resource in order to better exploit the second. It may even abandon the first country entirely, or else adjust its accounting in order to optimize its fiscal position. Thus many countries are deprived of contributions to their development with the benefit going only to the transnational company; I can cite numerous examples like this.

For this reason, we think that there is need to establish, within the international economic order, the obligations of these companies to respect the rights of the weak, who are also human beings with needs, with families and with ideals, and who also suffer. Here I could repeat Shylock's words: "If they are hurt, they bleed."

Are you optimistic that we are moving toward the kind of economic order and partnership that we need? Is more good happening than bad?

I feel that progress is being made. At least it is possible to discuss the problems in the appropriate forums. At this time there are meetings in which, at least, we are listening to each other and discussing problems. Progress is being made, perhaps not with the speed that we, the poor, would like, but we are moving ahead. I feel that the Carter Administration is very much aware of this situation and is trying to move in the right direction. ■



JAPAN

H.E. Takeo Fukuda, Prime Minister

Prime Minister Fukuda, emphasizing the substantial contributions of international enterprises to today's global economy, gives his thoughts on the type of relationship that is most desirable between host countries and international corporations. Major comments:

- By enhancing the international flow of technology, capital and know-how, international enterprises have helped to promote increased understanding among nations.
- Japan's own experience has indicated that development can best be secured under an open economic system.
- Among the problems requiring the cooperative efforts of governments and corporations are irregular business practices and inequitable host nationalization procedures.
- The world will witness ever closer consultation among nations in promoting the positive contributions of international corporations.

By way of introduction, Mr. Prime Minister, what are your thoughts on cooperation between international enterprises and host countries?

Since the advent of the 1970's, the world economy has been confronted with a series of difficulties as typified by the oil crisis, followed by both recession and inflation. Consequently, the world economic environment is now undergoing major structural changes. In an effort to cope effectively with such changes, the nations of the world are promoting close consultation and cooperation with each other through various international forums. Behind this is a common awareness that, in the world today, no nation can hope to live alone and attain economic prosperity—without mutual help and the sharing of responsibilities for the world

economy.

Thus, the international economic relationship is today marked by a growing interdependence. The degree of this interdependence is steadily deepening in all aspects, including international trade, finance, transportation, and tourism. Any effort to resolve the current problems of the world economy cannot afford to ignore this fact.

Our past experiences clearly indicate that the development and prosperity of the increasingly interdependent world economy can best be secured under an open economic system that guarantees free trade and free capital movement. And it may be said that business enterprises which are engaged in international operations in trade, investment and other fields have played no small part in advancing the economic interchange among the nations of the world.

Above all, direct investments by such enterprises, involving the direct transfer of comprehensive business operations, including technology, capital and managerial know-how, have made a significant contribution to the stable development of both the host countries' economies and the world economy as a whole—through the appropriate allocation of resources. Accordingly, I believe such international direct investments are a factor truly conducive to the harmonious development of relations among nations.

On the other hand, it is said that the activities of international enterprises, because of their very magnitude, tend to go beyond the bounds of national control and have become so powerful that they may even at times influence national policies. As a result, their activities sometimes tend to generate friction between

their host countries and themselves.

Since the relationship between international enterprises and host countries has two aspects—that is, mutual benefit and friction—it becomes essential for both sides to acknowledge their common interests and, at the same time, to try to eliminate frictions that could arise between them. Furthermore, I believe it important for the governments and the private sectors concerned to cooperate in tackling these problems, bearing in mind the need to keep the long-range point of view instead of pursuing short-term benefits alone.

Moving into what type of cooperation is most desirable, could you please discuss what host countries should expect from international enterprises doing business in their country?

All host countries hope that the admission of international enterprises, including their capital, technology and managerial know-how, will enhance the economic well-being of the host countries through bringing about increased employment opportunity, elevation of technical standards, and acceleration of the process of industrialization.

In the case of developing countries, since they are deficient in the capital, technology and managerial know-how which are indispensable for their economic development, private direct investment has a significant role to play in making up for such deficiencies. Much is expected of international enterprises in this regard in the years ahead.

The introduction of foreign capital in Japan after the end of World War II played a significant role in the postwar reconstruction of the Japanese economy. In view of such an experience, we have been striving to



Japan's Prime Minister since December 1976, TAKEO FUKUDA is known as his country's "Master of Economic Affairs." He has served in six cabinet posts including Deputy Prime Minister, Finance Minister, Foreign Minister, and Director General of the Economic Planning Agency. He has also been Japan's official representative at international economic conferences held by the IMF, the World Bank, the Asian Development Bank, and the Joint Japan-U.S. Committee on Trade and Economic Affairs.

JAPAN IN BRIEF

LAND: 370,370 km²; 16% arable and cultivated, 3% grassland, 12% urban and waste, 69% forested.

POPULATION: 113,462,000, including Ryukyus (January 1977), average annual growth rate 1.1% (current).

LABOR FORCE: (1975 figures) 53.2 million; 12.7% agriculture, forestry, and fishing; 35.2% manufacturing, mining, and construction; 48.2% trade and services; 3.7% government; 1.9% unemployed; surplus of skilled labor, 2.0 million est. employed (Jan. -Mar. 1975).

GNP: \$488 billion (1975, at 296.8 yen = U.S.\$1); \$463 billion in 1974 prices, \$4,400 per capita (1975); 57% personal consumption, 32% investment, 11% government current expenditure; real growth rate 2.1% (1975); average annual growth rate 6.3% (1970-75).

MAJOR INDUSTRIES: Metallurgical and engineering industries, electrical and electronic industries, textiles, chemicals.

EXPORTS: \$54.8 billion (f.o.b., 1975); 54% machinery and equipment, 22% metals and metal products, 7% textiles.

IMPORTS: \$49.7 billion (f.o.b., 1975); 44% fossil fuels, 8% metals and metal products, 15% foodstuffs, 7% machinery and equipment.

MAJOR TRADE PARTNERS: Exports—20% U.S., 15% OPEC, 11% Communist countries, 10% EC, 4% Australia, 40% other; imports—35% OPEC, 20% U.S., 7% Australia, 6% EC, 5% Communist countries, 27% other.



liberalize both the inflow and outflow of capital to the greatest extent possible.

At the same time, host countries expect that international enterprises will conform to the host countries' general economic policies with respect to trade, balance of payments, taxation, labor relations, and so forth. It may be noted, in this connection, that there is a growing clamor for the public disclosure of the financial conditions of international enterprises in order to increase the transparency of their operations.

Host countries further desire that international enterprises refrain from indulging in corrupt practices, such as illegal political donations and bribery, in their overseas operations.

At present, international as well as national studies are under way to forestall such corrupt behavior and to facilitate normal transactions in international commerce. In the appendix to the joint communique issued on May 8 at the end of the London Economic Summit Meeting, Japan joined the six other leading industrialized countries of the world in welcoming "the work being done toward international agreements prohibiting illicit payments."

With respect to these problems, it is noteworthy that a code of conduct on international enterprises is now under study in the United Nations, and that the Organization for Economic Cooperation and Development (OECD) has already adopted a set of guidelines. These circumstances would seem to be a clear indication that the world expects international enterprises to conform to a certain reasonable standard of conduct in their operations.

Recognizing that cooperation is a two-way relationship and responsibility, would you also give your views on what international enterprises should expect from host countries?

Private enterprises are by nature interested in essentially free economic activities for pursuing their objectives. International enterprises are no exception. They entertain hopes for free access to foreign countries, for national treatment accorded with respect to their business operations, and for the assurance that just compensation will be paid in accordance with international law in the event of nationalization. In that connection, I wish to emphasize that in order to facilitate direct in-

vestment, it is important to prepare an environment in the host countries conducive to such investment.

Efforts have been made in this respect among the developed nations to eliminate barriers against the freedom to invest in foreign countries in line with the OECD code of liberalization concerning the movement of capital. OECD member governments are also cooperating—as indicated in the OECD Declaration of June 1976—on the freedom of business activities in the host countries after the admission of enterprise, with a view to bringing about the mutual granting of equitable national treatment. However, the problem as to how similar freedom should be guaranteed in the developing countries, which differ in the degree of economic development, is a matter for further study.

The problem of nationalization, needless to say, has been one of the major issues in the North-South problem of recent years. It is especially important to provide ways and means to handle disputes in accordance with international law in case of nationalization, as a minimum prerequisite for ensuring a stable and smooth flow of capital between nations. It is hoped that host countries will recognize this fully and take necessary measures to achieve this purpose. Be that as it may, it is earnestly hoped that further discussions on this question at the international level will produce constructive results.

In summary, what is the outlook for the future, as you see it?

I believe that in the future the world will witness a further promotion of economic management through increasingly closer consultations among nations. As the world economy moves in that direction, the international activities of enterprises are expected to grow multifarious and multinational.

Against this background, it is sincerely hoped that all the nations of the world will achieve ever closer cooperation in promoting the positive contributions of international enterprises in various fields of economic interchange, including capital and technology, and thereby in bringing about the prosperity of their respective domestic economies and of the world economy as a whole—while at the same time trying to eliminate the negative sides of their activities. ■



INDONESIA

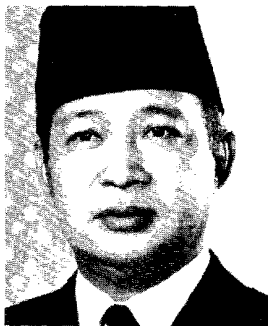
H.E. Suharto, President

In response to IMDI's questions, Indonesian President Suharto discusses his country's view of the role of foreign investment in achieving national objectives. In so doing, he:

- Analyzes the role of multinational corporations in assisting Indonesia fulfill its Second Five-Year Development Plan.
- Provides a list of priority sectors which are open to foreign investment and technical assistance.
- Describes as "highly useful" to Indonesia's economic growth investments in the industrial, agricultural and mining sectors.
- Emphasizes the hope that companies investing in Indonesia will work "to the best of their ability and in accordance with existing regulations."

Mr. President, what is the policy in regard to foreign investment in your country?

At present, Indonesia is busily engaged in carrying out its Second Five-Year Development Plan, which focuses on economic development without neglecting other sectors. This requires a great amount of capital and skills. While still adhering to the principle that Indonesia's national development efforts are the responsibility of the Indonesian nation itself, we are open to the possibility of establishing economic cooperation with foreign countries—either with governments or private sectors. It is in this respect that we provide opportunities for foreign investment in sectors we ourselves have not been able to undertake.



PRESIDENT SUHARTO of the Republic of Indonesia assumed his position by decree of the People's Congress in 1967. Until this time, he pursued a career in the Army, working in earlier years for Indonesian independence and in later years for the restoration of security and order within his country. Before his election as President, he served as Minister/Commander-in-Chief of the Army.

Under our foreign investment laws, the rights of foreign investors are protected. Attractive incentives are given—such as tax and duty preference, transfer of profits and depreciation—thereby enabling investors to gain reasonable profits.

Both foreign and domestic investors receive the assistance and support of the Government. The Government restricts or imposes high tariffs on goods which are already being sufficiently produced domestically—whether by foreign or domestic investors.

National production is protected by better defined regulations on various sectors which are still open, limited or closed to either foreign and/or domestic investment. We have formulated a "Scale of Priority List," which is revised from time to time in order to remain compatible with the national interest.

What do you see as the principal benefits of foreign investment in your economy?

As I mentioned earlier, we are inviting foreign capital investment in order to complement and to accelerate the implementation of development plans. Development efforts require capital, technology and expertise, which are scarce or lacking. We hope foreign investors will help us not only to exploit our natural resources—in turn benefitting our economy by the increase of income and foreign exchange and the creation of job opportunities—but also to enhance our ability to use modern technology, managerial skills and capital. We have made encouraging progress during the past few years with the involvement of foreign investment.

What, in your view, are the principal problems or issues relating to foreign investment in your country?

We have not yet encountered any major difficulties relating to multinational corporations operating in this country. The principle of sovereignty in the domain of foreign capital investment (as set forth in the U.N. "Declaration on the Establishment of a New International Economic Order"), has always guided our policy. In the Foreign Investment Law and its bylaws we have stipulated safeguards and controls on foreign investment.

Nevertheless, we constantly oversee the implementation of defined policy to ensure the attainment of our national development goals. We have learned a valuable lesson from the experience of other countries which have faced difficulties caused by multinational corporations. The Government hopes that foreign companies that are already investing or are intending to invest in Indonesia will work to the best of their ability in accordance with obligations imposed on them by existing regulations, and will always remember that any action that creates a negative effect on the economic, social and political situation in Indonesia will certainly be detrimental to their companies.

What is your policy with regard to the various forms of investments: e.g., equity ownership, licensing arrangements, joint ventures?

The basic Government policy on equity ownership is that, in any venture, there must be the possibility of increasing national ownership over time until Indonesia becomes a major shareholder.

Where capital is not lacking, but

INDONESIA IN BRIEF

LAND: 1,906,240 km²; 12% small holdings and estates, 64% forests, 24% inland water, waste, urban, and other.

POPULATION: 135,913,000, including Portuguese Timor and West Irian (January 1977), average annual growth rate 2.4% (current).

LABOR FORCE: 44 million; 70% agriculture, 15% industry, 15% miscellaneous and unemployed.

GNP: \$29 billion (1975, current prices), about \$220 per capita; real average annual growth 7.1% (1970-75).

MAJOR INDUSTRIES: Processing agricultural products and petroleum, textiles, mining.

EXPORTS: \$6.8 billion (f.o.b., 1975); timber, rubber, tin, copra, tea, coffee, tobacco, palm oil; petroleum, \$5.1 billion (405 million bbls) (1975).

IMPORTS: \$5 billion (c.i.f., 1975); rice, other foodstuffs, textiles, chemicals, iron and steel products, machinery, transport equipment, consumer durables.

MAJOR TRADE PARTNERS: (1975) exports—32% U.S., 44% Japan, 9% Singapore; imports—18% U.S., 41% Japan, 9% West Germany, 6% Singapore.



technology is, licensing arrangements with foreign companies for technical assistance are possible.

The Government also hopes that the opportunity to own shares is as widely available as possible to the general public, through the recently established securities and stock exchange market. Companies which sell their shares in the securities market enjoy certain preferences and benefits. The main purpose of this venture is to spread evenly equity ownership and to increase public income, in addition to drawing and productively using the potential capital of the society.

We offer production-sharing contracts for enterprises requiring a great deal of capital and advanced technology, such as mining and crude oil. We hope that through these production-sharing contracts we can, when the time comes, also use the most up-to-date technology, as well as receive a share of the production.

Are there particular areas or sectors of the economy in which investment by multinational companies are particularly welcome?

The Scale of Priority List divides economic sectors into four categories: those open and given top priority; those open and provided with facilities; those open but without the facilities; and those closed to foreign capital investment.

In general, I can say that those sectors open to foreign capital investment are as follows:

- Sectors producing raw materials from natural resources; or those producing basic materials, semi-finished goods or components for diverse industries;
- Sectors manufacturing finished goods generally requiring a higher degree of technical know-how, expertise and capital than in the initial production stage;
- Sectors producing export goods;
- Sectors requiring more capital, higher technological skills and expertise (and involving greater

risks) than domestic capabilities can provide;

- Sectors providing greater employment opportunities and stimulating the expansion of capital investment in areas outside Java.

It is evident, therefore, that the opportunities for foreign investment are numerous. These same opportunities are also open to multinational companies, since there are no laws in Indonesia that make the distinction between the so-called "multinational" companies and other foreign companies.

What are the terms on which multinational companies are expected to operate in your country?

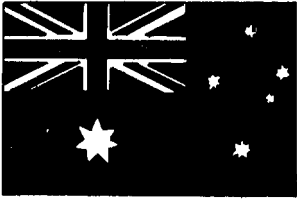
Indonesia's foreign investment policy is stipulated in the Foreign Capital Investment Law. Its rules apply to sectors that are open to foreign capital—covering equity ownership (including among other rules, the obligation to involve domestic capital); employment of foreign experts; and the timeframe for investment (maximum 30 years).

Generally speaking, we ask foreign corporations to have a sense of responsibility toward the Indonesian nation and people. We hope that foreign investors can adapt to the objectives of Indonesian development endeavors—namely, to build up Indonesian economic and business capability with the end result being national self-reliance and self-sufficiency.

Can you give an example of foreign investments that have been particularly successful from the point of view of your country?

In principle, every approved foreign investor must yield beneficial results to the Indonesian state and people. Capital investment in oil is one example of a successful and mutually beneficial cooperation. In general, it can be said that foreign investment in the industrial, agricultural and mining sectors has been highly useful to the growth of Indonesia's national economy. ■

"In principle, every approved foreign investor must yield beneficial results to the Indonesian state and people."



AUSTRALIA

T.R.H. John Malcolm Fraser, Prime Minister

In this interview—conducted on March 31, 1977—Prime Minister Fraser describes Australia's progress in establishing a stabilized national economy and achieving a competitive role in international investment. The following are his observations:

- Australia's successes in combating recession and controlling inflation are causes for greater confidence in Australia's investment climate.
- A basic desire to develop major resources and to serve the national interest underlies the practice of flexible foreign investment laws.
- The decrease in labor unrest has contributed to restoring world confidence in Australia's mining and manufacturing industries.
- When setting national development objectives, it is necessary to consider what is economically feasible.

Mr. Prime Minister, in preparing for this interview we were impressed by the uniqueness of Australia's situation. Since you possess a high degree of development and at the same time an enormous potential for further development, you can speak for both the developed and the developing worlds. With this in mind we would like to ask you to define your own priorities in terms of economic development and your own overall aspirations for your country.

In broad terms the priorities are very easily defined, but realizing them involves a complex of policies. Our first, shorter-term priority is to overcome the current economic recession, which in Australia's case, I believe, is caused more by our own folly than by world events. We were not as much affected by the oil situation, for example, as many other countries, because of our own supplies.

However, at one point, our Government expenditures went up 46

percent in one year, which some people might find hard to believe. As a result, unemployment approached 200,000 in that same year. So there is a message in this for those who suggest that higher government spending is a way to overcome the unemployment problem. Higher government spending, plus rather foolish wage policies in 1974/75, added enormously to unemployment. Overcoming recession and getting business into a lustier and more hopeful mood is obviously very important.

Recently business has been starting to look to the future with much greater confidence. For example, the Commercial Bank of Australia made a statement recently saying there is no doubt that recovery is under way, and warned against undue stimulatory measures at this time; i.e., tax cuts. Getting the economy moving sensibly with a much lower level of inflation is obviously an immediate objective.

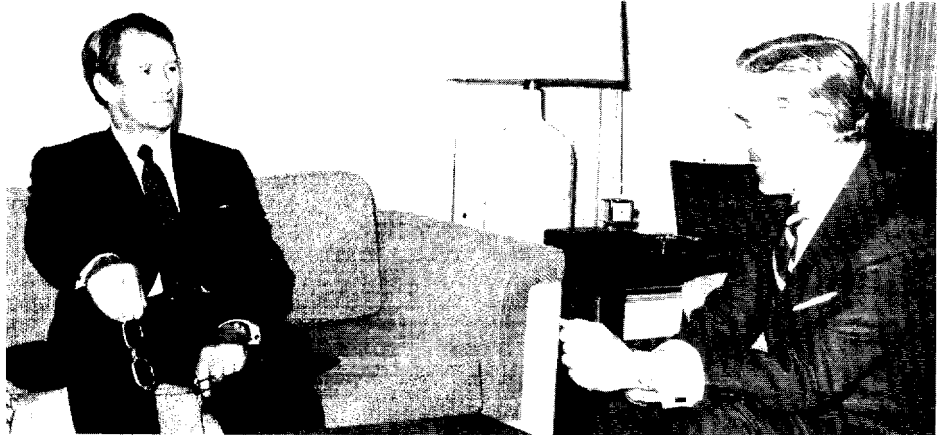
We need, however, an appropriate balance, an interrelationship be-

tween major industries and tertiary industries. The fact that we gain substantial funds from overseas as a result of our mining industry does sometimes put a strain on the manufacturing sector, which is a much larger employer than is the mining sector. The industries that have been hit by recession over the last three years are the manufacturing and rural industries. The rural industries might well be more resilient than the manufacturing industries since they are used to substantial shifts in their balances and profitability and are not as labor intensive as are many of the manufacturing industries.

What role do you see the foreign investor having in your own development?

A very useful and very welcome role. Much of where industry is moving forward in Australia is due to the role of the foreign investor. In the motor industry, there have been commitments to over \$300 million in new investment—new models and new companies coming into this

JOHN MALCOLM FRASER has held the post of Prime Minister of Australia since 1975. His political career began in 1952, with his election to Parliament, where he later chaired a number of Committees (among them the Joint Parliamentary Committee on Foreign Affairs). Serving under several Liberal Administrations, he has filled ministerial positions including Minister for the Army, Minister for Education and Science and Minister for Defense.



Prime Minister Fraser (left) discusses Australian development priorities with IMDI President Gene Bradley.

AUSTRALIA IN BRIEF

LAND: 7,692,300 km²; 6% arable, 58% pasture, 2% forested, 34% other.

POPULATION: 13,808,000 (January 1977), average annual growth rate 1.7% (1966-76).

LABOR FORCE: 4.76 million; 14% agriculture, 32% industry, 37% services, 15% commerce, 2% other.

GNP: \$83.0 billion (1975), \$6,050 per capita; 60% private consumption, 16% government current expenditure, 24% investment (1975); real average annual growth 3% (1970-75).

MAJOR INDUSTRIES: Mining, bauxite, industrial and transportation equipment, food processing, chemicals.

EXPORTS: \$11.9 billion (f.o.b., 1975); principal products (1975)—44% agricultural products, 14% metalliferous ores, 8% wool, 8% coal.

IMPORTS: \$11.1 billion (f.o.b., 1975).

MAJOR TRADE PARTNERS: (1975) exports—29% Japan, 10% U.S., 5% New Zealand, 5% U.K.; imports—20% U.S., 15% U.K., 18% Japan.



country to manufacture. This is a fairly significant investment.

Mining developments are going forward, and the sums involved with these are so large that Australia has no hope of finding the capital that is required. The Northwest Shelf project might be \$3 billion. If those funds were to come from Australian sources, other users of capital in this country would be very much starved of funds, and this is just not possible.

Investments are welcome then in all sectors of your economy?

They are welcome wherever development is involved. There are some exceptions, however. There are special rules for uranium, requiring tougher local ownership restrictions, and I think you would understand the reason for that. There are particular national sensitivities, I think, in any country. It is necessary to strike an appropriate balance between national aspirations, which any country would be expected to have, and the reality of economic circumstances. By doing so, we make the position of foreign investors in this country secure for the future. They know the processes that are gone through, and that they have been designed to protect the national interest. It is much less likely, therefore, that at some time in the future anyone will foolishly come along and try to raid the multinationals. I think our policy will prevent that from ever happening in Australia.

I believe that you see the log-jam breaking; that a forward motion is now beginning in foreign investment. Is this correct?

Yes, the log-jam is breaking. Quite obviously, investors wait to see what a country is doing in a number of areas. We have made our attitude toward foreign investment known directly and indirectly. One thought I have heard stressed is that people from overseas believe they are unwelcome. I want to know about this, or the Treasurer wants to know about it, because this is not the impression we want to convey. Most people I have met from Europe and especially from the United States have expressed appreciation and understanding of the policies that we have adopted. A large number of projects have gone to our Foreign Investment Review Board, and they have been accepted overwhelmingly.

Now coal projects are starting to

move into Queensland. I mentioned the substantial and firm investment that has been announced in the motor industry. In Western Australia very significant investments in the minerals area and processing area are starting to move forward again. So I would believe the log-jam is breaking, and I would certainly hope that Australia is well on the way toward reestablishing confidence of the kind that we would want around the world.

I would like to mention one other point. Concern had been expressed by the United States, Japan and Europe about industrial relations and labor problems. I think that might well have been the greatest inhibiting factor to foreign investment if I judge the views properly. The time lost through industrial disputes last year was much less than it had been for a very long while. There was dramatic improvement in the situation that prevailed under the previous Administration. For example, I can cite the following figures on the time lost through strikes. In 1975 there were 3.5 million man days lost, while in 1976, on normal industrial matters, only 1.7 million man days were lost. So that is a very significant improvement in our first year in office.

Wages lost in 1974 were \$128 million, in 1975 \$95 million and in 1976 \$60 million. There has been a continued improvement in that area also. I do not think this message has been adequately understood overseas because one still hears of an iron ore ship being held up by a strike in the Pilbara or something of a similar nature. But the situation is improving.

We are slowly changing the nature of some of the industrial laws, an action which we believe is leading to an improved industrial climate. The Minister for Employment and Industrial Relations recently introduced very far-reaching measures which we believe will further improve the industrial climate.

Could you describe these measures?

What we are going to do is establish an Industrial Relations Bureau which will have the effect of protecting individual trade unionists from oppressive action by employers or by their own unions.¹ There are significant instances of which I think we all know in many countries where unions can act quite oppressively

in relation to their own members, maybe much more oppressively than employers would ever dream of doing under present circumstances.

Basically, the Board is designed to uphold industrial law. It does borrow, in part, from American practice and the experience of the National Labor Relations Board. But it is a body that will have quite wide and significant powers.

One of the problems that we have had in industrial relations in Australia is in redressing grievances. When an individual believes that he has suffered from an oppressive or unreasonable action, he has had to take action himself in the courts to get redress. If a company, or for that matter a union, believes that it has been unfairly treated in industrial relations matters by the other party, it also has had to go to court directly. Now, the Industrial Relations Bureau, an independent third party, will have statutory responsibility. We believe that it will strengthen the practice of reasonable and responsible industrial laws in this country.

I gather you would see improvement in industrial relations as a continuing trend?

This is certainly an objective. Another problem, of course, is that a lot of time lost through labor disputes has been in areas which affect specific export industries. Trade unions

are now beginning to realize they are jeopardizing their own futures. One or two overseas countries have probably been on the receiving end of more than their fair share of industrial disputes, because, as often happens in the industrial arena, the disputes get concentrated in one or two industries, in one or two locations. This has also tended to give a false impression of the overall industrial climate, which I believe is improving quite significantly.

Is there any distinction between the treatment received by domestic and foreign investors in Australia? If so, what is it?

There is some distinction in relation to resource projects, where we want to have equity ownership by domestic as well as by foreign investors. I suppose, then, to this extent there is a distinction. In major resource developments, our objective is 50 percent local ownership. But if we cannot have 50 percent, we do not want projects held up. The Foreign Investment Review Board judges these matters on the basis of our national interest. In the overwhelming majority of cases, the propositions put forward have been accepted. I

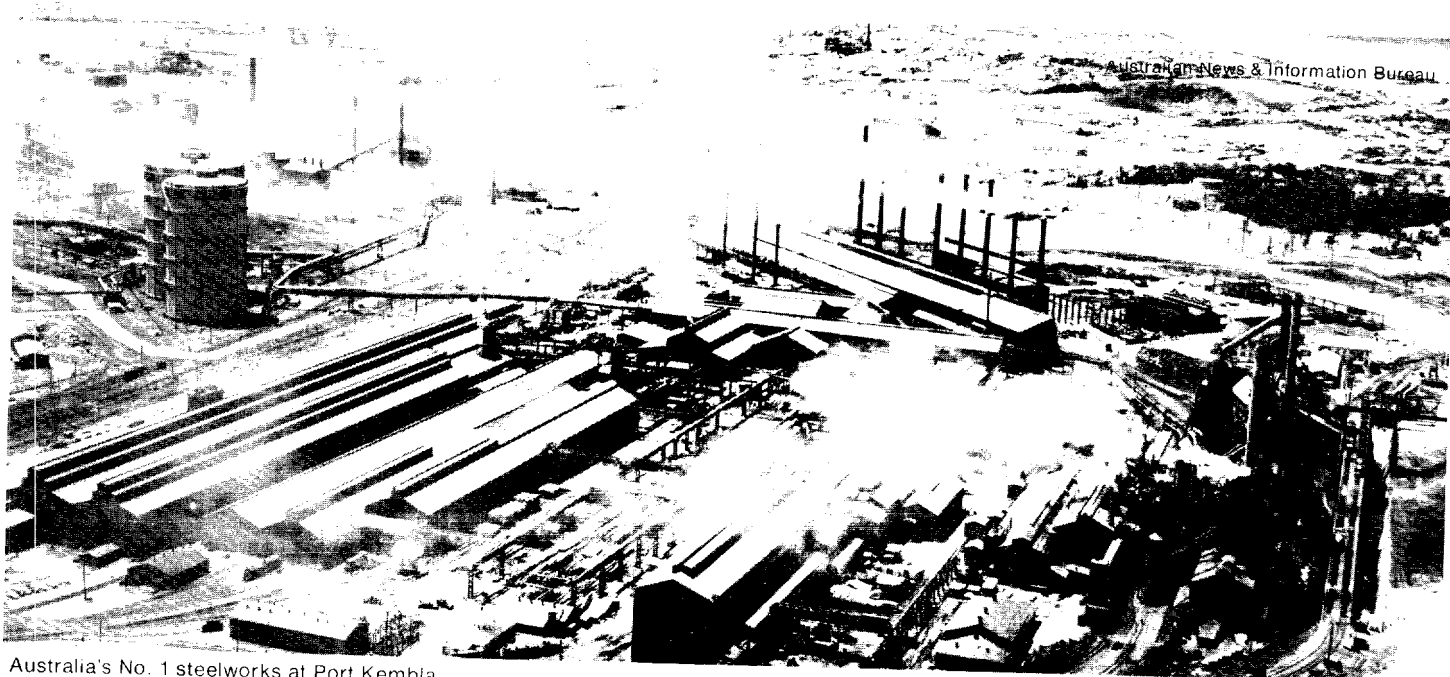
have not met anyone believing or saying that decisions of the Foreign Investment Review Board are restrictive. I think our foreign investment policy is administered sensibly and flexibly. Once a man puts down his dollars, a foreign investment dollar is the same as a domestic dollar.

What are the benefits resulting from foreign investors? Could you perhaps cite one or two examples?

Benefits include advanced technology, very expensive research, different management practices, which can then be compared with one's own, and sometimes access to overseas markets through avenues that are opened up through multinational companies. This, however, can be a two-edged sword. For example, there have been multinational companies which have produced goods in Australia and have then applied a limited export franchise for their operations—limiting countries to which exports can go. This is a practice we do not like.

There are other significant benefits apart from the ones mentioned. One or two of the multinationals have begun to identify themselves in the Australian scene in the develop-

"It is necessary to strike an appropriate balance between national aspirations . . . and the reality of economic circumstances."



Australia's No. 1 steelworks at Port Kembla.

mental areas. They build houses and schools; they virtually build towns. This is of lasting benefit to Australia. Some have become very closely identified with the development of, and support for, the arts in Australia. I think this is something to be applauded because, while there is already significant Government support for the arts, we also want to attract more public support. Large multinational corporations obviously have a significant capacity to do this if they are so inclined. Since this tends to identify them with Australian aspirations and activities, it is also very good public relations. It makes people understand that they want to be good citizens, and want to contribute to Australian national life in ways that they can. I think multinationals are coming to understand this. But as in all things, the best example must still be followed by others.

Many companies have undertaken active communications programs aimed at informing both the general public and their own employees of those beneficial aspects of their operations such as those you have just mentioned. What are your thoughts on this?

One thought that my Government has been trying to promote within all industry is an awareness of industry's obligation to its own employees. We all look upon companies and understand their obligations to their shareholders; we understand that they have obligations to consumers—unless companies produce something that people want, they will not survive very long. Going beyond this, I think there is also an obligation for multinationals, and for all companies, to help explain the free enterprise system to their own employees and to help them understand that it is the best system for them as employees. It gives them a choice of employer. It gives them greater control over the marketplace than they would get through any totalitarian system, where they would be told what to buy. It gives them freedom of choice in a great many areas where no other system would.

If you are going to leave it to a political party alone to explain these benefits of free enterprise to employees, I think it will take a long time. Surely, a good employer is in a better position than a government

or a political party to put these advantages to his own employees.

Companies in Australia are starting to provide special reports, designed for their own employees. They explain, for instance, what is happening in the company, and the problems caused by inflation. There is a very very long way to go in this yet, but I believe that all companies should pay much greater attention to explaining to their employees both their own circumstances and the general benefits of the free enterprise system. This is an area which I think companies have neglected in the past.

Returning to our earlier theme, do you see increasing opportunities for foreign investment in Australia?

I think the opportunities are very great indeed for those who are prepared to come and take the initiative. In many areas, and especially for some of the more sophisticated manufacturers, I think Australia can, in part, become the workshop for Southeast Asia and other countries. Exports to New Zealand have increased quite markedly over recent years. For those with vigor and energy, I think there are great opportunities.

Do you feel that the balance of power in the Southwest Pacific has been significantly changed by the Communist takeover in all Indo-China?

It has certainly not been helped. I think you would have to say that there has been significant change. A lot will depend on the future direction of Vietnam's policies. China, the People's Republic of China, is itself very much concerned about Soviet influence, although it does not always like to express it. The information available to us would seem to indicate that China is prepared to support stability in Southeast Asia. China does not want unsettled areas on that side, as those border areas are of particular concern because of the proximity to the Soviet Union. But the ASEAN countries (Association of Southeast Asian Nations: Indonesia, Malaysia, Philippines, Singapore, Thailand), I think, are growing in strength and unity, and therefore we support their policy that there should be no major power dominating in the area. We would say that a continued United States presence is utterly critical as a balance to the Soviet

Union's presence in the Indian Ocean. We are concerned, as are the NATO countries, by a continued expansion of Soviet military power. Its presence in the Indian Ocean is really a symptom of the Soviet Union's growing world power. The NATO Foreign Ministers have drawn attention to this on many occasions in recent years, and have repeatedly expressed grave concern about the seriousness of the situation. That is not something we could ignore, but I make the point that any withdrawal of United States strength or any diminishing of United States resolution would have very far-reaching implications—far-reaching implications for China's and Japan's policy. This emphasizes the important world role of by far and away the most powerful and the most significant democracy that the world has ever seen.

In conclusion, we would like to focus on your country's role as a rapidly emerging actor in the world scene. Do you see Australia assuming an ever greater role as an Asian power?

Power might be the wrong word, I think, but for a long while we have devoted a great deal of our diplomatic initiative into the Southeast Asian and Asian area. We have taken initiatives in trying to achieve greater communication with China, in relations with the ASEAN countries, individually and together. There is no doubt that a very major part of our diplomatic initiatives will always be directed to this area. The extent that Australia can have influence depends, I think, on the quality of what we ourselves do. We have obviously been very much involved in Southeast Asia on past occasions, in Malaysia, in Vietnam. I think it is natural that we should be very interested in what occurs in these areas since stability in Southeast Asia is of great interest and concern to Australia. We want to do everything within our capacity and power to see that there is stability and progress, and that countries are allowed to develop in a way that their own citizens want, without interference. ☐

'Editor's Note: Legislation establishing an Industrial Relations Bureau was passed in May 1977, but the proposed sections dealing with the rights of individuals were set aside for further consideration in the spring sitting of Parliament.



EGYPT

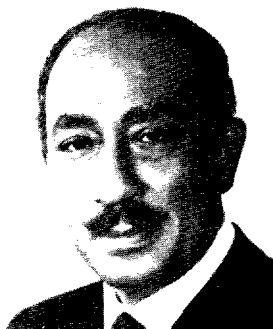
H. E. Anwar El-Sadat, President

Outlining his nation's development priorities, President Sadat describes current efforts to stimulate foreign investment, which is "a cornerstone in Egypt's drive to rejuvenate its economy." Key points:

- Reforms have been launched to dismantle the bureaucracy which, in the past, has had a negative impact on foreign investment.
- Foreign investment is encouraged by liberal laws and regulations and is especially welcome when it fits within the framework of Egypt's development plans.
- Egypt is committed to increasing cooperation with the American people and sees American investment as playing a key role in introducing needed technological advances.
- The present atmosphere in Egypt is conducive to expanded foreign investment, with prospects for peace greater now than at any time since the 1940s.

Mr. President, you have repeatedly stressed your desire to increase cooperation between our nations in the area of economic and technological development. What are your goals and priorities over the next three to five years? How can foreign investment help you achieve these goals?

Certainly, it is a matter of great importance to me and the entire Egyptian people to intensify and accelerate cooperation between our country and other nations in the area of economic and technological development. It has become quite evident that we live in the age of interdependence and mutuality. There is an ever increasing universal feeling that all men have the same destiny and, hence, should pull their resources together to encounter the



ANWAR EL-SADAT became Egypt's President in September 1970. He was one of the founders of the Free Officers Committee which led the successful revolution against the regime of King Farouk in 1952. In the years following, President Sadat held several government positions including Secretary General of the National Union, President of the National Assembly and Vice President. An accomplished writer, he is author of the book *Revolt on the Nile*.

tremendous challenges of the present and the future alike. No nation, however powerful, can live in isolation or remain unaffected by the turn of events in other parts of the globe.

We, in Egypt, have more reason to adopt a policy of increased cooperation and mutual benefit with other nations, both on account of the magnitude of the problems we face today and the stage of socioeconomic development we are going through. When I assumed the awesome responsibilities of my office, I decided that Egypt had no choice but to turn to an open door policy and liberalization. Our unique geographic position in the heart of the Arab world and as the point that links three continents together culturally and economically makes it incumbent upon us to play a pivotal role in intensifying cooperation among nations.

In particular, we are genuinely interested in increasing cooperation with the American people. We can, in my opinion, create a healthy partnership that would be equally beneficial to both of us. We welcome American investment in Egypt and we are doing all we can to reassure investors that they are not taking any risk by investing their money in Egypt. We remain open minded and willing to listen to any observations or suggestions they might have.

According to our development plan, we aspire to reach the following goals in the next three years:

- Attaining a rate of growth between 7 and 10 percent.
- Decreasing the balance of payments deficit.
- Accelerating savings and increasing it to 15 percent of the national income by the year 1980.
- Increasing the volume of invest-

ment to 25 percent of the national income in 1980.

- Expanding our comprehensive program of desert development with a view to increasing the size of cultivated land in Egypt, which stands now at a poor 3 percent of our territory.
- Reorienting our industrial production primarily towards exportation.
- Reconstructing our entire infrastructure which has been deteriorating for the past 20 years.

Would you please elaborate on Law 43, concerning your open door policy on trade? What are its benefits to Egyptian investors and foreign investors? What distinctions, if any, do you make between domestic and foreign investors? What types of foreign investment do you most welcome?

We promulgated Law 43 in 1974 to stimulate foreign investment which is a cornerstone in our drive to rejuvenate our economy and infuse blood into our system of production and services. To attract foreign capital, we inserted in that Law many provisions to ensure investors against nationalization, confiscation and expropriation. We granted them a tax exemption for five years, a period we thought was enough to put the project in shape.

This year, Law 43 was amended by Law 132 primarily to extend the privileges and exemptions enjoyed by foreign investment to domestic investment. Nationally owned enterprises were authorized to maintain in Egypt a bank account in foreign currency to finance their imports of commodities and equipment.

As to the type of investment we are seeking, any project would meet our need and requirement if it:

- Fits within the framework of our

development plan. It is easy to verify this as our plan is published and available on demand.

- Contributes to our goal of increasing our industrial output. Thus, the project must be of a productive nature.
- Helps us develop our technology and know-how.
- Increases our exports.
- Effects, through joint ventures, an interaction between foreign and domestic resources.

Within these guidelines, it does not matter much that the project falls in one field of economic activity or another.

We understand that as part of your bid to attract hundreds of millions of dollars in Western investment, Egypt has established a high-powered committee to help foreign business-

EGYPT IN BRIEF

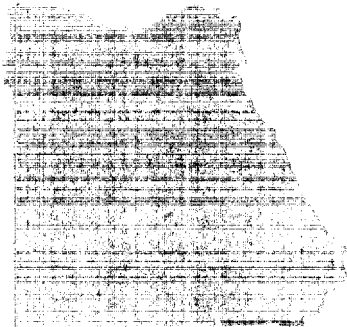
LAND: 1,000,258 km² (including 57,498 km² occupied by Israel); 2.8% cultivated (of which about 70% multiple cropped); 96.5% desert, waste, or urban; 0.7% inland water.

POPULATION: 38,533,000 (January 1977), average annual growth rate 2.3% (current).

LABOR FORCE: 8 to 12 million; 45% to 50% agriculture, 10% industry, 10% trade and finance, 30% services and other; shortage of skilled labor.

GNP: \$11.2 billion (1975, in current prices), \$300 per capita; inter-war annual growth rate of 1% or less accelerated to 4% -5% since 1973.

MAJOR INDUSTRIES: Textiles, food processing, chemicals, petroleum, construction, cement.



men bypass the country's traditional bureaucracy. Could you please comment on this and describe any other steps you may take to make it easier for foreign companies to do business in Egypt?

Since we started to implement the open door policy to stimulate investment and enhance productivity, projects totalling about \$3.5 billion were approved by the investment board. Of these projects, 161 have been completed and have started production. This is not to say we are fully satisfied with the progress that has taken place in this area. In fact, we believe that there is a need for constant improvement. We know the negative impact of our bureaucracy. That is why we recently launched an administrative reform to dismantle this bureaucracy and establish a new spirit which will expedite the process of decision-making and eliminate much of the red tape.

Together with this, a high-powered committee for foreign and Arab investment headed by the Prime Minister was set up in April 1977, to ensure a prompt handling of all problems related to investment. That committee includes the Deputy Premier for Financial and Economic Affairs, the Ministers of Industry, Agriculture and Economy, together with two prominent men of experience in this field. The committee is empowered to make any decision without having to refer to a higher body.

Simultaneously, the Government embarked on a new program to remedy the balance of payments and free the banking system of all hindrances and restraints. All such measures are designed to create an atmosphere which would be conducive to investment.

It would appear that Egypt has a unique role to play in the economic development of both the Middle East and the developing world. With this in mind, what contribution do you think your country can make, and what actions have you taken to date? What contributions can the U.S. business community make in this field?

Our role in the area is one of pioneering in most fields of socioeconomic development. We started industrialization early and, hence, we had a chance to accumulate the technical know-how and train a skilled labor force. We also attained

a high degree of administrative and managerial skill. Thus, with the capital available in the Arab world, we possess all the essentials of an advanced and modern system of production. We would like to set a successful and attractive model for development in the area. Sister Arab states can benefit from our experiment to a great extent. That is not to say that our model can be copied elsewhere. Each and every country has conditions which are to a certain degree different. But it is definitely useful to take a look at similar experiments with all their positive and negative aspects.

We also believe that it is our duty to assist our Arab brothers in their drive to develop their economies at a rate which is commensurate with the challenge of our age. The gap between developed and developing countries is widening rather than narrowing. Therefore, developing countries have to exert a double effort to rectify the situation. We are most willing to play an active role in this respect. We have no less than half a million Egyptian experts working in various parts of the Arab world contributing to socioeconomic development in all fields.

American business can contribute greatly to the process of overall development in the Middle East. First, the door is wide open for joint Arab-American ventures in the areas that can have an impact on increasing the productivity in almost every Arab country. To name but a few fields of economic activity, such cooperation can concentrate on: petrochemicals, fertilizers, pharmaceuticals, aluminum, agroindustry, apparel, and infrastructure. Conditions are favorable for this kind of investment and the local component is available.

American business can also contribute significantly to the process of transferring technology to the area on conditions which are acceptable and profitable to both parties alike. Your technology is most advanced and private firms are invited to share with us this great resource to our mutual benefit. As you know, capital is not much of a problem in many parts of the Arab world, and what remains is to effect a happy marriage between capital, technology, a skilled labor force, and markets.

To tell you the truth, we expected American business to be more prompt and forthcoming in respond-

ing to our invitation to invest in Egypt. Its response has been a conservative one so far, despite our effort to reassure all investors that they are not really taking any undue risks while investing in our country. We signed an agreement on taxation with the United States. We enacted a law to expand tax exemptions for foreign investment to periods that range from 5 to 15 years depending on the type of activity. We have done much to improve our institutions that deal with investment. To be sure, there was a response to that on the part of American business, but I think that the response was not proportionate with the existing opportunities. The prospects for our economy are very good, and we are steadily improving our system of production and distribution. We are open minded about that and we solicit any constructive suggestions.

What are the terms on which multinational companies are expected to operate in Egypt? Do you have a comprehensive legal framework which provides for the regulation of foreign investment, protection of "industrial property rights" (e.g., technology and trademarks) or repatriation of capital and profits?

Multinational corporations can do business in Egypt like any foreign company. They enjoy the same facilities, privileges and exemptions. The legal framework which regulates foreign investors is Law 74 as amended in April 1977. Information on that Law is available on request and can be obtained from our missions abroad.

Beyond obeying the Law, which we assume will be observed by foreign investors, we expect them to contribute to the development of our economy and improve our production capabilities. Their projects should be geared to increase our output and improve our balance of payments. We would like to see more jobs for our workers.

If investors experience any obstacles, they should know that we are flexible and willing to listen to their complaints. The Egyptian law protects copyrights and industrial property rights. Technology and registered trademarks are protected. We are a law-abiding nation and we fulfill all our obligations under international law.

On the other hand, provisions have been made for repatriation of capital

and profits. According to the existing provisions, repatriation could take place five years from the date the project began. That condition could be waived if the execution of the project was delayed for reasons beyond the will of the investor. Capital could be repatriated upon the liquidation or the sale of the project. The transfer of capital occurs at the highest listed rate of exchange and on five annual installments. However, the transfer could take place at once if the investor has an adequate deposit in foreign currency.

Many corporations have gone well beyond what are considered the "basic" functions of business, and are becoming involved in meeting the socioeconomic needs of the host community. And increasingly, host communities are welcoming this corporate "social involvement." Would you welcome this form of "social commitment" by corporations in Egypt? Are there specific examples of "good corporate citizenship" by companies in Egypt? Do you encourage exchange programs—in business, education, the arts, and culture—as a means of fostering closer understanding and cooperation?

Yes, I would welcome this form of "social commitment" so long as the type of social activity undertaken by the foreign company meets a certain real need in the community. To ensure that, the company would be well advised to consult in advance and on a regular basis with the central or local government which sets the priorities for social work.

Egyptian companies have set a good example of "good citizenship." Some are financing training centers for technicians and skilled workers. Others have established research centers in fields which are not directly related to theirs. This is over and above the social and medical services the companies provide in compliance with legal requirements. Much remains to be done, especially in rural areas. We are launching an ambitious program to rebuild four thousand Egyptian villages. We enlist the contribution of the local communities as well as the business circles in this campaign. We would like to raise health standards in the country. We are combatting illiteracy and we welcome any help in this field. We are trying to develop agro-industry and I think that American

companies are most qualified to cooperate with us in this area.

I have always been a staunch advocate of closer ties among nations in all fields. Of course, exchange programs in business, education, art, and culture would be a very appropriate means of attaining such a goal. The essence of our new open door policy is to stimulate more interaction with other nations in various domains. Its sphere is by no means limited to commerce and business.

Is it possible to move forward with strengthening your economy and truly encouraging substantial foreign investments until the war issue has been settled? What is your candid assessment of U.S. policy toward the Middle East under President Carter? What is Egypt's most urgent need, and is it likely to be met?

I believe that we have a golden opportunity to establish peace in the Middle East for the first time since the early 1940s. We are determined to reach a peaceful settlement. President Carter is cooperating with us and he has demonstrated a genuine dedication to the cause of peace. He grasped the crux of the matter and the intricacies of the conflict in such a short period of time. With his thoughtful leadership, the American people can play a historic role in putting the area on the threshold of peace after decades of war and devastation.

I must add, however, that the present situation in the Middle East is conducive to an expanded program of investment. There is enough stability, and if I am to speak of Egypt specifically, we have had a stable government for a long time. Prospects for more stability are bright, and every year our economy registers an improvement. As I stated before, we need capital investment and the introduction of the latest technology to our system of production. Western technology can play a pivotal role in this respect. By 1980, most of the problems that entangle our economy will be solved and we can concentrate more on refining and sophisticating our services and production machinery. In short, the time is now ripe for a headstart. American business is invited to enter with us in a just and equitable partnership that could be beneficial to both of us. ☞



ITALY

H.E. Giulio Andreotti, Prime Minister

In this discussion of investment activities undertaken by international corporations in Italy, Prime Minister Giulio Andreotti reveals that:

- Italy endeavors to encourage foreign investment by maintaining a liberal investment climate.
- There is need, and opportunity, for joint ventures on the part of Italian companies and MNCs in sectors involving advanced technology.
- Ideally, the multinational corporation should commit itself to a long-term relationship with Italy, not relocate in the event of difficulties.
- "Participation in the life of the whole community" is what Italy ultimately wants from the international corporation.

Mr. Prime Minister, would you elaborate, please, on what your priorities are in terms of economic development?

The Government's program to strengthen the economy has been presented to the people and has also received approval from our Parliament. Now, what we want to achieve within a 12-month framework is to reduce the rate of inflation from 20 to 13 percent, and to achieve at least a modest growth rate at the same time. This program is going to be difficult to put into practice, but we are convinced that it is feasible.

What is Italy's policy in regard to foreign investment?

Since the end of World War II, Italy has always welcomed foreign investments. Foreign capital has been a relevant factor in at least seven branches of industry: electronics, cosmetics, cleansing agents, photo-sensitive materials, roller bearings, petroleum products, and electro-mechanics. This policy is not only due to a decision on principle, but also to the understanding that direct

foreign investments contribute to an improvement of our balance of payments and to our industrial development.

Direct foreign investments in Italy are regulated by the Foreign Investment Act of February 1956, which is one of the most liberal laws passed in any industrialized country. This legislation on foreign investment seeks to ensure the equal status of foreign and domestic investors.

With the exception of some areas in which foreign investment is subject to certain restrictions—ship ownership, aircraft ownership, regular air transportation services, and the opening of banking establishments or branch offices of foreign banks—foreign investments can be made freely in all sectors of the economy.

It is evident that a great unawareness still exists of the benefits that multinational corporations bring to the countries in which they operate. Would you please comment on this?

I believe it is necessary to make a distinction between the general opinion about MNCs and an evalua-

tion of their actions. As far as the latter is concerned, I believe that the evaluation should be positive. Here in my country, at least, multinational corporations have contributed to increasing the standards of Italian industry.

In some lines, completely new products have been developed—particularly in the fields of electronics, pharmaceuticals and cleansing agents. It must be said that in many instances direct foreign investments are the only means of introducing advanced technology.

Another significant contribution of foreign investment concerns commercial and managerial skills, which, as a rule, spread rapidly from foreign companies operating in Italy to national companies operating in the same sector of the economy.

Furthermore, joint venture companies have made substantial contributions to employment and exports.

What, in your view, are the principal drawbacks or problems of foreign investment in your country?



GIULIO ANDREOTTI, Prime Minister of Italy, pictured here following his interview with Mr. and Mrs. Gene Bradley, has had a long career in Italian politics, serving under several administrations. Over the years, he has held several Cabinet-level posts, including Minister of the Interior, Finance, Treasury, Defense, Industry, and Prime Minister (1972-73). He has served as Managing Editor of *Concretezza*, a political magazine, as well as author of several historical works.

Some apprehensions have arisen in recent years, due mainly to the divergence between the objectives of international corporations and national economic objectives. Specifically, problem areas include:

- Excessive influence of MNCs on the quantitative and qualitative aspects of economic development.
- Overdependency of one part of a host country's economic activity on decision-making centers outside that country.
- Inequitable transfer pricing of products from parent company to subsidiary company abroad.
- Disruptive effects on the balance of payments by the short-term transfer of large amounts of money.

As far as Italy is concerned, one of the principal drawbacks of foreign investment in this country is the fact that the companies concerned seek to raise the funds needed for investment on the Italian capital market, limiting as much as possible their own financial contribution. This means that there is a drain on funds which otherwise would be available for other activities. Such a situation is particularly bad for a country in which saving for investment is a relatively recent development and not yet strong enough to satisfy our own investment needs.

What are the terms on which multinational companies are expected to operate in your country?

The apprehensions which may arise concerning the activities of multinational corporations could be attenuated—if not overcome—through the application of the provisions of the OECD "Guidelines for Multinational Enterprises," approved by member governments on June 21, 1976. A correct application of the OECD code could lead to a better balance between the expectations of multinational corporations and those of the host community, and could, therefore, contribute to a more favorable foreign investment climate.

One of the most obvious characteristics of multinational companies is their geographic mobility in pursuit of immediate profit. It would be desirable if, on the contrary, MNCs would look upon their presence in Italy on a long-term basis, taking into account the opportunities for profit over the last few decades, as well as

the general advantages resulting from active international integration.

In a situation in which the major industrial enterprises in Italy suffer severely from undercapitalization and in which national investors do not feel particularly attracted by investment in securities, an influx of capital for investment from abroad would certainly be desirable. Such a development would strengthen the financial structure of companies in which the amount of locked-up money very often is much higher than the total stock exchange value.

The recent Libyan financial contribution to Fiat shows that foreign investors may find it extremely interesting even to embark upon minority participation in industrial activities in this country.

It would be desirable if at least in those sectors which are of strategic importance for economic growth—i.e., in those sectors which make use of advanced technology (deepwater exploration for oil, nuclear power plants, nuclear fuel cycle, aeronautics, etc.)—joint ventures would be initiated between Italian companies and multinational corporations. With-in such joint ventures licensing arrangements should be based on the principle of gradual transfer of technology and know-how and on the principle of unhampered freedom of competition on international markets.

Given the great demands on capital resources to meet environmental and energy needs, are you contemplating any steps to attract foreign investments important to your development?

The heavy demands for capital resources raise difficult problems of financing which cannot be solved on a national basis. This is why we have to rely on foreign capital which can be attracted only if satisfactory investment conditions are brought about. The Italian Government is striving to stabilize the economy and to restore a climate of trust favorable to foreign investments.

Also, the positive conclusion of the recent IMF negotiations, together with an improvement in the economic situation of the country, are prerequisites of fundamental importance to the reactivation of the flow of foreign capital—public and private alike—to Italy.

As far as administrative proce-

dures for investment activities are concerned, they are no more complicated than those existing in many other countries.

This does not mean, however, that there are no problems. For example, there are currency risks resulting from the economic situation. Furthermore, the fiscal policy in Italy is less favorable, in some instances, than in other countries. It is obvious that every possible effort must be made to harmonize taxation of capital resources invested in Italy with that of capital invested in other countries.

Parliament is at present dealing with a series of important bills presented by the Government concerning the conversion, rationalization and reorganization of industry, as well as the increase of export credits and more favorable tax regulations for capital investments.

If these bills are passed, they will offer foreign investors more favorable conditions for the purchase of plants which are being reorganized, for the subscription of capital and for the exportation of finished products manufactured in Italy—and thus for making contributions to our economic growth.

Corporations have been getting involved in meeting the needs of the whole society—not just in producing goods and services. For example, IBM has a scientific center which helps to study the Arno River to prevent future flooding like that of 1966. In addition to management training, do you welcome participation in the social development of communities?

I agree that multinational companies should work within the community. One good example of this is the Shell Company, which yearly has carried out special research-style surveys of general interest and published reports on problems of youth.

I think that participation in the life of the whole community is something which multinational companies should achieve. They should certainly try to work for the community at large and also take part in research and analytic work concerning the problems of the community. This, I believe, is ever so important.

There is another important aspect, however. I believe that multinational companies should not operate only in one country or concentrate all activities in one place. Rather they should try to distribute their opera-

ITALY IN BRIEF

LAND: 301,217 km²; 50% cultivated, 17% meadow and pasture, 21% forest, 3% unused but potentially productive, 9% waste or urban.

POPULATION: 56,410,000 (January 1977), average annual growth rate 0.7% (1966-76).

LABOR FORCE: 19,549,000 (January 1975); 15.0% agriculture, 42.9% industry, 39.0% other; 3.3% unemployment (1975), 5.6% if underemployed (those working less than 33-hour work week) are included; 1.5 million Italians employed in other Western European countries.

GDP: \$172 billion (1975), \$3,090 per capita; 67.5% private consumption, 21% gross fixed investment, 14.0% government; net foreign balance—6.1%; 1973 growth rate 6.3%, 1974 growth rate 3.4%, 1975 growth rate—3.5% (1970 constant prices).

MAJOR INDUSTRIES: Machinery and transportation equipment, iron and steel, chemicals, food processing, textiles.

EXPORTS: \$34.8 billion (f.o.b., 1975); principal items—machinery and transport equipment, textiles, foodstuffs, chemicals, footwear.

IMPORTS: \$38.4 billion (c.i.f., 1975); principal items—machinery and transport equipment, foodstuffs, ferrous and nonferrous metals, wool, cotton, petroleum.

MAJOR TRADE PARTNERS: (1975) 43.6% EC-nine (18% West Germany, 15% France, 4% Netherlands, 4% U.K., 3% Belgium-Luxembourg); 8% U.S.; 3% U.S.S.R. and 3% other Communist countries of Eastern Europe.



tions evenly over various countries. This would help to solve the unemployment problem of so many people—and thus further develop trade and benefit society. I think that if multinational companies would operate that way, it would give them a meaningful presence within the host community.

Are there particular areas in Italy where multinationals are not involved and where you see a definite need for their involvement?

I believe it would be extremely helpful and would also improve the image of multinational companies with public opinion if multinationals could develop a detailed program concentrating on the development of some sectors in southern Italy—the least developed region of our country.

What would really be extremely helpful to our young people would be a survey looking at employment prospects in future years within the nine countries of the European Eco-

nomics Community.

Do you think the MNC will be written about 50 or 100 years from now as a force for social and economic good?

It is rather difficult to envisage what historians are going to tell us about multinational corporations within 50 to 100 years. It is extremely difficult even today to perceive what journalists are going to write or say the day after tomorrow. Anyway, I believe that the final, definite appraisal of multinational corporations is going to be essentially positive. After all, they have contributed very much to industrial development in a great number of countries.

The appraisal will be all the more positive if multinational corporations become truly international; i.e., if the various executives working in top managers' positions come from all different countries. I believe that this would be quite important for the overall image of international corporations.



Prime Minister Andreotti with President Carter during recent White House visit.

“The Italian Government is striving to stabilize the economy and to restore a climate of trust favorable to foreign investments.”

THE NETHERLANDS

H.E. Johannes Marten den Uyl, Prime Minister

Prime Minister den Uyl, commenting on the role of foreign investment in the Netherlands, affirms that his country is an "open and outward-looking country." Major observations:

- Foreign investment is encouraged in all sectors of the Dutch economy especially when it conforms with national economic priorities.
- The nearly 1,000 foreign industrial undertakings in the Netherlands have a positive effect on the economy—boosting employment, contributing to GNP and an even balance of payments, and transferring "know-how."
- Especially welcome are high-technology industries, "knowledge industries," or research centers which would tap a well-educated population and provide future opportunities for a diversely educated younger generation.
- Nations must keep their lines of communication and understanding open in order to solve mutual problems together and "prevent protectionism from having a chance."

Mr. Prime Minister, much of the focus in international relations today has been on the economic aspects of foreign policy. Viewing the Netherlands in this context, could you please give us a brief sketch of the Dutch economic situation?

In the course of the postwar period, there have been marked shifts of emphasis in our economic policy. After periods of massive economic growth and inflationary trends, our policy is now aimed at restoring and maintaining a high level of employment, with great emphasis being placed on stimulating industrial investment, maintaining purchasing power and curbing inflation.

This policy is clearly beginning to pay off. Whereas in 1975 prices rose by 10.5 percent, in 1976 the rise was only 9 percent and this year it will be reduced to between 6 percent and 7 percent. While unemployment has proved an intractable problem, reaching a peak in 1976 at 5.5 percent, it has in fact been falling between August 1976 and February 1977. Recent figures show a slight deterioration again. Industrial investment, which has declined for the past two years, is expected to grow by 8 percent this year. Substantial sums have been set aside to help businesses experiencing temporary difficulties to survive and to stimulate new investment. In addition, the Government has succeeded in limiting the drop in home building to 20 percent. Much attention is also being paid to urban renewal and public transport.

Thus, the current objectives of

Dutch economic policy can be summarized as follows:

- Balanced economic growth
- Even balance of payments
- High level of employment
- Reasonably stable prices
- Fair distribution of incomes
- Even spread of economic activities and population throughout the country
- Economical management of raw materials and energy.

What are your priorities in terms of economic development?

While the emphasis in the coming years will be placed mainly on providing employment, at the same time efforts will be made to create conditions for achieving a lasting balance in industrial relations, a field where we already have a good record. General education and specialized training in Holland is at a high level, just as in the United States. Education is an important part of our policy. It is directed towards increasing people's knowledge and enabling them to participate more fully in society. This must, in turn, be reflected in the conditions under which people work and in the organization of the production process.

I therefore see the first priority of economic policy to be the creation of jobs suited to the educational level of the population, and development of a more human production process with sufficient working incentives.

The second priority I consider to be the establishment of a social structure in which everyone involved in the economic process can actively participate, and in which those who

are no longer able to work can lead a worthwhile existence.

The third priority should be the development of an infrastructure capable of ensuring that towns remain habitable, that traffic congestion is kept to a minimum and that the rate at which natural resources are consumed is cut back to more sensible levels.

What role do you see for foreign investment in all this?

Selective economic growth is essential if our goals are to be achieved. But it is also necessary that the more prosperous countries enable the less prosperous countries to accelerate their economic development.



JOHANNES MARTEN (JOOP) DEN UYL is the Prime Minister of the Netherlands. Serving in Parliament since 1967 as political leader of the Labor Party, he became Prime Minister in 1973. In an earlier cabinet, he held the post of Minister of Economic Affairs. Mr. den Uyl has a background in journalism and political research in addition to his service in municipal and national politics. He is a Knight in the Order of the Netherlands Lion.

NETHERLANDS IN BRIEF

LAND: 33,929 km²; 70% cultivated, 5% waste, 8% forested, 8% inland water, 9% other.

POPULATION: 13,868,000 (January 1977), average annual growth rate 1.0% (current).

LABOR FORCE: 4.7 million; 30% manufacturing, 24% services, 16% commerce, 10% agriculture, 9% construction, 7% transportation and communications, 4% other; 4.8% unemployment (August 1975).

GNP: \$80.4 billion (1975, in 1975 prices), \$5,900 per capita; 58% consumption, 21% investment, 19% government; 2% foreign balance; average growth rate, 4% in constant prices (1966-75).

MAJOR INDUSTRIES: Food processing, metal and engineering products, electrical and electronic machinery and equipment, chemicals, petroleum products, and natural gas.

EXPORTS: \$35 billion (f.o.b., 1975); foodstuffs, machinery, chemicals, petroleum products, natural gas, textiles.

IMPORTS: \$34.5 billion (c.i.t., 1975); machinery, transportation equipment, crude petroleum, foodstuffs, chemicals, raw cotton, base metals and ores, pulp.

MAJOR TRADE PARTNERS: (1975) 63% EC, (28% West Germany, 13% Belgium-Luxembourg), 6% U.S.



Foreign investment fits very well into the economic setting of this country, situated as we are around a major port that is a gateway to Europe, and having as we do an efficient system of modern transportation and communication, a competent and highly qualified working population and a strongly developed services sector.

What are you doing to facilitate foreign investments important to your development?

There are a number of licenses which both Dutch and foreign companies need if they are to set up here or if they wish to expand their industrial activities. These licenses relate, among other things, to safety at work and environmental protection. Part of our policy is aimed at ensuring that the various licenses dovetail with one another and that applications for licenses are dealt with more quickly, so that unnecessary delays in the investment process are avoided. Companies themselves can do a great deal to help, for instance, by involving the Government in their projects at an early stage.

What is the policy in regard to foreign investment in your country?

In view of the desirability of expanding and strengthening various sectors of economic activity, we encourage foreign investment. In principle, this investment occurs in almost all sectors of our economy, the exception being that in a few sectors such as public utilities, concessions are granted to government or semi-governmental organizations.

What distinctions, if any, do you make between domestic and foreign investors?

The laws and conditions relating to non-discrimination which apply to all investments in the Netherlands must, of course, be observed. There are no discriminatory measures in this country against foreign investors or establishment of foreign undertakings; that this is so is manifested by the large numbers of foreign companies operating here. Besides having to comply with Dutch law, foreign companies naturally must contend with Dutch usages and conditions. That is not such a great imposition, however, as Holland is an open and outward-looking country. Moreover, the continuity of the production process is better safe-

guarded here than in many other European countries.

I should also like to mention that the Netherlands has always adhered closely to the international agreements regarding the liberalization of international investments made within the framework of the EC and the OECD.

What do you see as the principal benefits of foreign investment in your economy?

There are almost 1,000 foreign industrial undertakings in the Netherlands, 35 percent of which come from the United States. The American companies are engaged mainly in the metallurgical, chemical and electrotechnical industries. In addition, more than 400 foreign companies—of which a quarter are American—have shareholdings in industrial undertakings in this country.

It is self-evident, therefore, that foreign economic activities have secured an important position for themselves in the Netherlands, both by boosting employment and by contributing to the national product and the balance of payments. I should mention in this connection that Dutch imports and exports account for half of our Gross National Product (GNP).

The petrochemical sector, in particular, makes a substantial contribution to the national economy. A number of foreign companies active in this sector in Holland have a combined capacity far exceeding Dutch requirements. This capacity, understandably, is geared mainly to exports.

The importance of these foreign companies can also be judged from the fact that the five largest multinational concerns in the country, which are predominantly Dutch in character, provide almost 20 percent of all jobs in industry. In 1974 they accounted for almost a third of the investments made.

Foreign undertakings are so interwoven in our industrial life that no special account is taken of them in economic planning. Recognizing the importance of foreign investment, Holland goes out of its way to attract foreign investors and provides assistance when establishments are set up here.

Another benefit to us is the technology transfers which occur through foreign investment. If we are to

maintain our relatively high level of expertise in various sectors, it is important to have great research potential. Already 2 percent of the GNP is allocated to research and development, about half of which is carried out by industry. It is not possible, of course, for a comparatively small country such as the Netherlands to be deeply involved in all areas of research. However, there is an exchange of know-how in this country since a great many of the foreign companies are part of large concerns which have their own research facilities. It is our experience that know-how acquired from foreign companies benefits not only industrial development but also the development of the commercial and services sectors.

What, in your view, are the principal drawbacks or problems of foreign investment in your country?

If one looks at developments in trade and in the flow of capital since World War II, one has to conclude that the liberalization which has taken place has led to a marked internationalization of commerce and industry. In a number of cases, this has led to areas of possible conflict between the ways in which multinational companies pursue their goals and the policies of national governments.

As far as this country is concerned, multinational companies are, of course, subject to Dutch law just as any other companies established here. I think, however, that it would also be useful if certain matters were regulated internationally, for instance by a code of conduct for multinational companies. This would lessen the chance of the possible conflicts mentioned above actually occurring and would allow the interests of the two sides to be properly balanced.

What do you see as the advan-

tages and disadvantages of the various forms of investment; e.g., equity ownership, licensing arrangements, joint ventures?

In this country, the foreign investor is free to choose whether to enter into collaboration with other undertakings, and, if so, with whom. This freedom is inherent in our mixed economy, where the making of decisions by both individuals and companies is decentralized.

It is up to the Government to define the framework within which these decentralized responsibilities are to be exercised. This framework must ensure that the developments which take place run along the lines which the community wishes.

To accomplish this, the Government does not necessarily have to own a share of the operations. In specific cases, however, the Government is prepared to take a share, if only temporarily, of the capital of companies when the risk of starting a venture is too great to be borne by the entrepreneur alone.

I should add that even those companies in which the Government has an interest must function within the market mechanism. In the Netherlands, moreover, that mechanism is very much subject to influences from abroad. For this reason Government participation must not be allowed to distort normal competition.

Are there particular areas or sectors of the economy in which investments by multinational companies are particularly welcome?

As you know, Holland has a well-educated population, and many good schools, universities and vocational institutions. Suitable work must be available in the future for the younger generation with their varied educational backgrounds. We are thinking especially of high-tech-

nology industries, "knowledge industries" involving a high degree of skill, research centers and the head offices of large concerns.

There is still room for expansion in the services sector, and our internationally oriented banks and insurance companies are still expanding considerably.

In view of the quality of Dutch agriculture, and the fact that it is in a strong position internationally, there must also be room for expansion in animal production farms.

Our policy is aimed at ensuring that the Dutch capital-goods industry can consolidate its position in existing markets and can gain a foothold in new markets now opening up abroad.

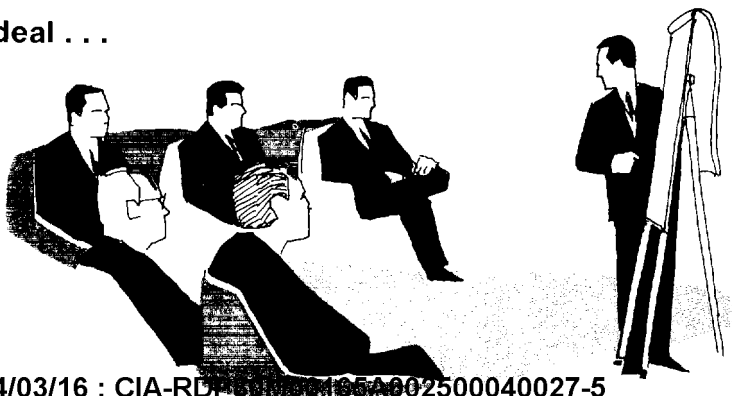
There are therefore many sectors in which foreign investors can play a positive role, and their activities will be appreciated all the more if they mean a big boost to employment.

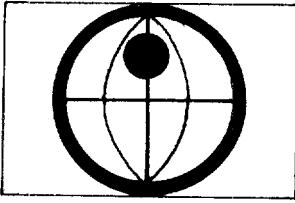
One development which is causing increasing concern among both developed and developing countries is the growing trend toward protectionism. Could you please comment on ways of controlling this trend?

We have entered an era of higher prices for energy and raw materials, of slower economic growth and of more difficulty in offering a sufficient number of jobs for our growing population. We have to use all our strength and contacts to prevent protectionism from having a chance, because that would mean not only disaster for the Third World countries, but also, in the long run, lower levels of prosperity for the industrial countries as a whole.

Exchange programs, private and public, can help to maintain the common understanding that is necessary to solve our problems together instead of shifting them to our neighbors. ■

"Companies themselves can do a great deal . . . by involving the Government in their projects at an early stage."





COMMISSION OF THE EUROPEAN COMMUNITIES

T.R.H. Roy Harris Jenkins, President

The European Community (EC) is facing growing economic and political challenges. In the following statements Messrs. Roy Jenkins and Fernand Spaak describe the EC's efforts to meet these challenges, including:

- Setting unified Community goals of full employment, reduced inflation and greater price stability.
- Achieving a "Uniting States of Europe" with a mix of Community and national policies.
- Guaranteeing equal treatment of foreign and domestic investment—through unified commercial legislation applicable in all member states.
- Helping to build a framework for constructive dialogue between developed and developing countries on achieving and maintaining a stable world economy.

Mr. Jenkins, one increasingly hears discussion of the growing sense of unity and cooperation among the countries of Western Europe. In light of this, can you briefly describe the concept of a "European Community"?

The European Community — or more exactly Communities, for there



ROY HARRIS JENKINS is President of the Commission of the European Communities. For over a quarter of a century, he has served in the British Government, holding such posts as Minister of Aviation, Chancellor of the Exchequer and Home Secretary. He has also been the United Kingdom Delegate to the Council of Europe, as well as President of both the United Kingdom Council of the European Movement and the Labor Committee for Europe.

are three (the European Community, the European Coal and Steel Community, the European Defense Community)—does not fit into any category immediately recognizable to the non-European public, and this makes it rather difficult to explain what "European Community" really means.

Americans sometimes look for a kind of "United States of Europe" on the analogy of the United States of America, and find to their disappointment that no such organization exists. It is better to refer to the "Uniting States of Europe," which over the last 25 years have created institutions that are peculiar to themselves and recognizably incomplete.

Could you please elaborate on these institutions. In what areas has the Community centralized the economic policies of its members, and in what areas does it remain decentralized?

Some parts of the Community's activities, such as agriculture, competition policy and external trading, are managed centrally through a common policy. Others, such as international finance and industrial cooperation with countries outside the Community, represent a mixture of Community and national competence. And in respect to such other policies as transport, Community policies are still at an embryonic stage. But a cardinal principle for the Community is to set a framework of ground rules governing the activities of the member states as a whole in the economic field to avoid the

economic nationalism that has bedeviled the past of Europe, as of so much of the rest of the world.

The movement toward European unity is still very strong. We come up against new obstacles from time to time. At present, for example, we are deeply concerned about some of the divergences in the economies of the member states. But it can be taken as a working hypothesis that what was true of the past will be true of the future, and that whatever the difficulties and setbacks, the forward movement will be maintained.

The European Community must necessarily relate both economically and politically to the rest of the world. How does the EC respond to these global challenges?

The Community has never shown hesitation in its response to the challenges in the external field. Even where common internal policies have yet to be achieved, the Community has generally been able to develop its personality vis-à-vis the outside world, to speak with one voice and to take joint action when and where required. Internationally as well as internally, the Community is an established fact of life, an economic power exercising considerable influence in world affairs.

The reasons are obvious. A few figures suffice to illustrate the Community's international scope and potentialities: its population (of about 260 million) exceeds that of the United States or the Soviet Union; its gross domestic product (of more

than \$1.3 trillion in 1975) is almost as great as that of the United States; it does about 25 percent of world trade; it produces more steel and more passenger cars, it holds more monetary reserves and grants more official development aid than any other country; and it provides twice as large a market for the products of developing countries as the United States.

No wonder the Community has become a growing pole of attraction and that it has developed a massive economic bargaining power, exercising its weight and responsibilities bilaterally and in international forums with regard to its European neighbors, its other industrialized partners and the developing world.

In Europe itself, the Community has acted as a political as well as an economic magnet. Around this central nucleus is a web association and free-trade-area agreements with all the free countries of Europe. Greece is now negotiating, and Portugal has recently applied, for membership. Not far behind, Spain may follow. The Community has also drawn closer to such countries as Yugoslavia and those on the southern and eastern shores of the Mediterranean.

An issue of major importance today is the "North-South dialogue." Would you comment on the EC's relations with the developing countries?

Looking beyond the frontiers of Europe, the Community has taken up effectively and generously the challenge of the developing world. The Lomé convention linking the Community, on a contractual basis, to 52 developing countries in Africa, the Caribbean and the Pacific, is an imaginative and constructive approach to North-South problems. A complex pattern of bilateral agreements with other Asian and Latin American countries completes this picture. The Community's contractual policy has a universal counterpart in the system of generalized preferences offered to all developing countries. In international forums dealing with North-South issues, the Community is jointly and actively participating in the search for constructive solutions.

The contribution that the Community is able to make in respect to the developing countries is of vital concern to its primary industrialized



partners, among them the United States, Japan, Canada, Australia, and New Zealand. Europeans are taking on a growing portion of the burden of responsibility for the maintenance and development of democratic industrial societies. It means that in the eyes of the Third World there is an additional source of western power.

But this is not the only responsibility that the industrialized countries are sharing. Our basic concern, and this is in the interest of all industrialized countries as well as others, is to ensure through bilateral and multilateral action the maintenance and improvement of the free world trade system and the conditions of a stable world economy. These are the essential prerequisites for the survival of our democratic societies.

How do you view U.S.-Community relations in this context? What will the impact be on the global economy?

It is clear that the relations between the Community and the United States play a predominant role, because of their respective economic weight. Accordingly, Europeans and Americans bear a heavy responsibility to manage their relationship successfully not only for their own benefit, but also in the interests of the other industrialized and developing countries. That is why it is good to know that in President Carter's view, "United States-European relations lie at the heart of U.S. foreign policy." The Community welcomes these words and the challenge they imply.

MEMBER COUNTRIES: *Belgium, Denmark, France, Federal Republic of Germany, Ireland, Italy, Luxembourg, Netherlands, United Kingdom.*

PURPOSE: *The European Community seeks to:*

- *put an end to national prejudice, discrimination and armed conflict;*
- *make itself a single economic area, promoting social and technological progress and the efficient use of resources in both agriculture and industry;*
- *recover some of the world influence that Western Europe's nations can no longer command separately;*
- *become a strong force for peace and a generous provider of aid to the world's poorer nations;*
- *contribute to world stability and the beginning of international law and order.*

LAND: *589,000 square miles.*

POPULATION: *260 million.*

LABOR FORCE: *102.361 million (1975); 9% agriculture; 43% industry; 48% services.*

GDP: *\$1.382 trillion (1976).*

MAJOR INDUSTRIES: *Metals, chemicals, textiles, motor vehicles.*

EXPORTS: *\$157.8 billion (1976).*

IMPORTS: *\$178.3 billion (1976).*

MAJOR TRADE PARTNERS: *United States clearly the leader with Japan, Saudi Arabia, Sweden, Iran, Switzerland also high.*

*Source: European Community Information Service, Suite 707, 2100 M Street, N.W., Washington, D.C. 20037.

Expanding international trade, maintaining a stable yet flexible international monetary system, devising pragmatic policies toward the oil producers, seeking consensus in the multilateral trade negotiations (MTN), the North-South dialogue, and the Law of the Sea conference—all are in the mutual interest both of the Community and the United States.

Of course, we are at the same time competing with each other, and competition is desirable. Commercial relations and competition between two

partners of such commercial size certainly have their built-in tensions.

We must aim consistently, however, at obtaining a more equitable balance of our bilateral trade figures. For instance, we are, at present, facing a serious swing against the Community in our trade with the United States. Our present annual trade deficit with the United States amounts to more than \$7 billion. This will inevitably lead to growing pressures within the Community to seek more drastic remedies.

Together we must resist growing temptations to give in to protectionist pressures. Protectionism would necessarily lead to a decrease of world trade and thus increase unemployment and worsen business conditions. A political impetus has now been given at the London Summit conference to resume the MTNs.

We are confident, and the discussions at the Summit confirm this view, that our problems will be solved within a framework of basic understanding, and on the basis of a transatlantic give-and-take. ■

H.E. Fernand Spaak, Head of the Delegation

Mr. Spaak, to begin our interview, would you please describe the priorities of the European Community in terms of economic development?

Well I think the first priority we now have in Europe is to work to restore full employment. We have been living through nearly four years of very high rates of unemployment, which are creating a situation that is not only economically, but also socially and politically, difficult. Therefore, this is the first goal we have in economic policy. We have to restore full employment and reestablish a stable and sustained growth of our gross national product. And we must also try to reduce to a tolerable level the rate of inflation.

The second of those objectives is essential: to go back to a situation of stable prices. If we are to keep our competitiveness in the world, we must have much greater price stability than we have at the present time. This is also necessary if we wish to create and maintain as well the

necessary social climate.

We have yet another problem, which is linked to the very nature of the Community: high rates of inflation that vary from country to country. This is, of course, creating an element of disruption in the Community itself, and is an added reason why we must go back to greater price stability.

How does the Community plan to accomplish these objectives?

I would say first and mainly through an active growth policy, regionally and sectorially balanced. Secondly, we are trying to convince both sides of industry—employers and workers—that they must take account of the overall economic constraints. As we work towards the reestablishment of a high degree of employment, a

good relationship between these two groups is a very important target.

What are we doing about this? Well, as you know, the economic and monetary policies of Europe are still national responsibilities. Nevertheless, we are attempting the establishment of a new kind of consensus in the Community by having representatives of the trade unions, employers and governments sit around the same table. In other words, representatives of the three partners of economic and social life—coming from each country—sit together to try to agree on what the economic and social goals of the Community should be. They are also trying to create a sort of framework of economic performances valid for the Community as a whole, and compati-



FERNAND SPAAK, Head of the Delegation of the Commission of the European Communities since January 1977, is shown here in the EC's Washington, D.C. offices during his IMDI interview. Mr. Spaak's affiliation with the Community dates to 1952, when he was Chief Executive Assistant to the President of the European Coal and Steel Community's High Authority. Mr. Spaak was Director General for Energy from 1967 to 1975, and before that served in the European Atomic Energy Community.

ble with individual national economic policies.

Mr. Spaak, what role do you see foreign investment playing in attaining these goals?

Let me say right from the beginning that the rate of investment in the Community is now considered as far from sufficient. Last year the rate of increase was only 2.8 percent, and the prediction for 1977 is only 1.5 percent. Therefore, all investments, anywhere in the Community—be they domestic or foreign—are welcome because we believe that, as I said, to achieve this goal of higher employment, we need all the possible investments we can obtain.

Given this increasing need for investment, what is the Community doing in today's competitive world market to become more attractive to foreign investors?

We have been trying to stimulate investment since the very beginning of the Community. This is why we created the Community and why we have established a Common Market. We thought that one of the necessary conditions to increase investments was to offer the investor a large market. This we have achieved.

We can now offer domestic and foreign investment a market of 260 million consumers, a market where there are no tariffs, no obstacles to trade of any kind. Workers can travel, establish themselves, work in any of the countries without a permit or passport, and enjoy the benefits of a social security system of the country where they work. In other words, any citizen of Europe who wishes to work in Germany, for instance, can do so, and will benefit from the German social security system. And that is true in all our countries.

Does the Community have an overall policy for foreign investment?

No. We have no overall policy as such regarding foreign investment. This does not mean to say that we are not giving greater priority to investments going to the depressed areas of the developing regions of the Community—southern Italy, the whole of Ireland, the development areas of Britain, Scotland and Wales,

as well as west and southwest France, Greenland and a number of smaller areas.

Foreign investment policy is nationally determined, and most nations within the Community have investment agencies specifically set up to stimulate and oversee foreign investment. Some governments are giving more attention to the location of the investment or to the risk that foreign investment may take too dominant a part in an industrial sector of particular importance.

Although the Community does not set an overall policy, it does encourage investment. The creation of the Common Market was the first achievement, and now we are trying to establish a common legal framework available for those firms incorporated in our member states that would like to either establish themselves in the Community as a whole or operate in various countries of the Community. This is what we call the European Company Statute or European Corporation.

Would this Statute be applied equally to domestic and foreign companies?

Yes. Companies that would establish themselves in the Community would be able to benefit from this legal framework, which would be the same in the nine countries of the Community. We have not quite achieved it, however. As you may imagine, it is a very intricate problem to establish the same sort of rules of commercial law that could be applicable throughout the Community's nine countries.

During the last several years, corporations have become aware of their social responsibility, as never before. Do you see this as a trend in Europe? Should American companies operating in Europe become involved in extensive employee relations programs, in specialized management and technical training, in social involvement in the Community, and in other aspects which go beyond the traditional functions of doing business?

The most important attitude of foreign corporations is the fact that they consider themselves as part of

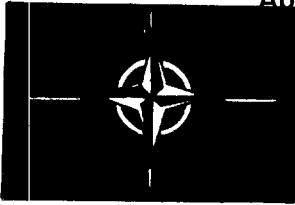
the economic and social fabric of the country in which they operate. They should behave as if they were part of that country, and indeed they are, through the activities and the profit they are making there. Therefore, it is very important that foreign businesses operating in Europe or elsewhere should behave towards the local, national and community problems in the same manner as national or European businesses behave.

Mr. Spaak, the international economic climate has recently been turbulent, with many fearing that the very survival of private enterprise is at stake. Would you please comment on what you see as the European response to this increasingly challenging environment?

The social climate has become a little more tense in Europe than it used to be, for one very good or very sad reason—a weakened rate of growth in Europe. This has reduced the size of the economic "cake" that can be shared every year. Therefore, trade unions find it more and more difficult to maintain a nonaggressive position. To overcome this, business needs to reach a stage of consensus with labor to explain its decisions in terms of investments and profits and to have them better understood by the forces of labor. This would lead to a better social consensus, which should make it easier to go through the lean years which we unhappily probably have in front of us.

For example, there are a number of countries in the Community that have a worker participation system, with a national discussion among trade unions, the government and employers' organizations, such as the Union of Industries of the European Community. In Britain, for instance, there have been two so-called "social contracts" under which the trade unions reached consensus with the two other partners that the rate of wage increases in 1975 should not go beyond 4.5 percent per year and in 1976, 6 percent. This is what we are trying to achieve through this tripartite discussion—all three partners exchanging views on these macroeconomic issues for the sake of the Community as a whole. ■

"The most important attitude of foreign corporations is the fact that they consider themselves as part of the economic and social fabric of the country in which they operate."



NORTH ATLANTIC TREATY ORGANIZATION

H.E. Joseph M.A.H. Luns

Secretary General Luns believes that "without economic strength and without healthy economic development, the NATO nations could maintain neither their military posture nor their cohesion." Specific points emphasized during this interview were:

- Western Europe's security could be further guaranteed by greater corporate investment in the technological sector.
- The standardization of defense equipment is a major and ongoing priority for members of the NATO community.
- National lobbies and interests sometimes impede the political goal of U.S.-European balance in weapons and technology exchanges.
- In sum, NATO depends strongly on the role of business in helping to build solid foundations for a successful Atlantic Alliance.

Mr. Secretary General, we would like to view the question of "What Governments Expect of Foreign International Corporations—and What International Corporations Expect of Foreign Governments" against the background of national security, international security and economic growth. Just how important is the economic strength of the NATO Community nations to the success of the NATO Alliance? In short, what is the interdependence of economic strength and security?

There is no doubt that without economic strength and without healthy economic development, the NATO

nations could maintain neither their military posture nor their cohesion. Weaknesses in the economic position of countries of the Alliance might, as a by-product, lead to countries trying to take independent measures against each other. Certainly, the recession of recent years has shown how interrelated economic strengths and military posture are.

Compared to the Eastern bloc, of course, our economic strengths are immense. But the priorities given to the military posture are not often those which the present times demand. That is not so much the fault of the economic establishment as it is the fault of the political establishment.

Would you care to comment on the role of international business in supporting the economic strength of the NATO community?

It is not often said—it might well be said more often—that the role of the economic community is very, very great. International corporations, the multinationals, play an important role. As you know, parties mainly of the Left are now attacking the multinationals as bastions of repression and reaction. I do not agree at all with this. Our world is shrinking more and more; all interests are interrelated. Therefore, I think the multinationals are necessary in keeping countries together and preventing them from taking independent and harmful actions against each other.

Are there sectors of the NATO community where you would like to see more corporate investment? If so, what sectors?

My first priority would be the sectors where technology plays a great role—electronics, for instance.

We are at this moment witnessing a great effort on the part of the Soviet Union to overtake the West in its technological advancement. The Soviet industry has the advantage of being able to command that certain goods be produced. On the other hand, there is, of course, a disadvantage in that the Soviet industry suffers from bureaucracy and from ill-directed action.

Free enterprise plays a very great role in countries like the United States, the Federal Republic of Germany, the United Kingdom, or the Netherlands, where huge industries have been able to supply these governments with the technical know-how which allows them to be prepared for any emergency in the military as well as other fields.

Could you cite illustrations of specific companies that have made a contribution to NATO security in your infrastructure? In the electronics field, for example?

It is difficult for me to name them all because I do not have with me a list of those firms that supply the technical knowledge. Offhand, I would mention General Electric and ITT in the United States, the big electronics firms in Germany and Philips in the Netherlands. There are so many others which I cannot name now; I would have to study their various contributions.

The shipbuilding industry, of course, is of *immense* importance for the Alliance. I may perhaps point out that without the combined shipbuilding facilities of the NATO Allies—such as the United Kingdom, France, Italy, and the Federal Republic of Germany—it is doubtful whether the countries of Europe



JOSEPH M.A.H. LUNS, Secretary General of NATO and Chairman of the NATO Council, is one of Europe's most experienced and distinguished diplomats. His appointment to NATO in 1971 was preceded by a long and varied career in the Netherlands Government, including service as Foreign Minister, member of the Lower Chamber of Parliament and numerous diplomatic posts in the Foreign Service. The Secretary General has been awarded the Charlemagne Prize from the City of Aix-la-Chapelle and the Gustav Stresemann Medal. His published writings cover subjects of naval and international affairs.

would have been willing, or even able, to build the modern warships which they now possess. Take a country like Holland: last year it contracted for well over \$1 billion worth of vessels—twelve major warships in Dutch shipping yards—Dutch-designed ships with all the modern appliances. It is absolutely doubtful, if not impossible, that those countries would have ordered these ships from the United States because part of the underlying motive is to help their domestic shipping industries. So, you see, the interrelationship is very big indeed.

Could you say a few words, please, to describe how NATO is organized so that government and business can work effectively together?

Oh, yes, we have a committee where the main representatives of the industries cooperate with the NATO directors—to streamline the various components of our defense posture and to make them as inter-operative as possible. And I may say that one of the weaknesses of NATO is the lack of interoperability, the lack of standardization. In recent years we have made progress.

There is a political dialogue going on between the United States and Europe. This spring when I met the President of the United States, the Vice President, the Secretary of Defense, the Secretary of State, and other officials, we all stressed the need to come to a real two-way

street. It would be a weakness for the European allies to depend exclusively on American technology and weaponry, just as it would be well nigh impossible for the United States to become the monopolist in the Alliance. The United States can profit from our technical advances, too.

There have been striking successes. One is the excellent main battle tank of the Federal Republic of Germany, the Leopard, which is now used in seven NATO nations. There is an agreement between the United States and the Federal Republic of Germany that they should jointly develop a Leopard-type tank. Unfortunately, strong national lobbies and interests make it, from time to time, rather difficult to carry out political decisions. But I am confident that in this instance political leadership will prevail.

Another good example is the F-16 plane now being offered by the United States to the Federal Republic of Germany, Belgium, the Netherlands, Norway, Denmark, and some other countries. The form of the contract stipulates that quite a large part of the assemblage and/or the various components of the plane will be made in the countries which order them. I should add that this applies to other industries as well. For example, the Netherlands electronic industry has quite a large market in the United States, and has even built

some of its own factories there.

Mr. Secretary General, how can a strong viable Atlantic community help to build peace and security in other regions of the world?

First of all, by the ever continuing process of consulting with each other and coming to consensus on world problems and on problems which lie outside the NATO area—like the Middle East and Africa. You have during the past year seen that, for reasons which I understand, the United States declined to give military assistance to Zaire, and the European countries intervened. But those were bilateral contacts. NATO, as such, does not intervene because we do not want NATO Allies criticized for intervening in other parts of the world.

It is extremely important, however, that we consult on all mutual problems—for instance, the Strategic Arms Limitations Talks (SALT). Narrowly viewed, that is a bilateral question; but it is a question on which Secretary Vance thought it wise to consult and brief the NATO Council. Consequently, when the Soviets reacted rather brusquely to U.S. proposals, there were no complaints in the Atlantic Allied countries which otherwise might have voiced them because of lack of knowledge. Now we know that the proposals of the United States were eminently reasonable.

NATO Headquarters, Brussels, Belgium.

U.S. Army Photograph



NATO IN BRIEF*

NATO ALLIES: *Belgium, Canada, Denmark, France, Federal Republic of Germany, Greece, Iceland, Italy, Luxembourg, Netherlands, Norway, Portugal, Turkey, United Kingdom, United States.*

PURPOSE: *"To preserve peace and international security, to promote stability and well-being in the North Atlantic area" as well as "to eliminate possible conflict in their (NATO Allies) international economic policies and to encourage economic collaboration between their countries."*

*Source: NATO Handbook, March 1977.

CORPORATE SECTION:

What International Corporations Expect of Foreign Governments



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FIAT PERSPECTIVE: Global Vision of Development

by Giovanni Agnelli

In the following statement, Mr. Agnelli evaluates today's increasingly explosive global situation, and the "compelling need" for world planning. More specifically, he:

- Designates the MNC as "one of the most valuable vehicles" in managing global demand.
- Cautions that rich and poor nations alike will suffer if they fail to utilize resources and to develop new global industrial plans.
- Reveals Fiat's flexible investment policy of matching its own initiatives with a host country's actual needs and development priorities.
- Discusses Fiat's commitment to maintaining a "global vision" among all nations in order to promote industrial cooperation.

Mankind has become conscious of limited resources and the globalization of human needs. The shrinkage of space, due to technological advances, has caused local tensions and problems to change quickly into world strains and issues.

Indeed, the slowdown in growth and the questioning of the very notion of growth have had their locus in the industrialized countries of the West. But the shock wave has hit with no less violence the Eastern European countries and has dramati-



GIOVANNI AGNELLI has held the post of Chairman of Fiat S.p.A. since 1966. In addition, he served as Chairman of the Italian Manufacturers Confederation (Confindustria) from 1974-76; and he has been serving as Mayor of Villar Perosa (near Turin) since 1945. His international activities include memberships on the International Committee of the Chase Manhattan Bank, the Board of Advisors of the International Management and Development Institute and the International Industrial Conference of San Francisco. He is also Governor of the Atlantic Institute for International Affairs. Mr. Agnelli is an author and lecturer on domestic and international economic topics.

cally hurt the Third World. Third World countries—except for the few fortunate owners of raw materials—see their take-off prospects and their hopes of exorcising the ghost of starvation waning away.

The mounting tide of worldwide unfulfilled expectations gives rise to increasingly radical ideologies, thus fostering dangerous social and political instabilities, which ever more pervade economic rationality. Even the legitimacy of economic rationality is being questioned.

Disillusionment and wrath spread everywhere. Unforeseen solidarities and convergence of targets weld local and national terrorism into international plots. Violence focuses on established institutions and on MNCs in particular, the latter being perceived as mainly responsible for economic crises and lack of growth.

This should be no occasion for surprise. At crucial turning points, when things go bad, there is always a scapegoat at which all charges are levelled. Now it is the turn of the multinational corporations (MNCs).

A world inundated by unrest and unfulfilled expectations, a world which by the end of the century will have some seven billion mouths to feed, is like an immense escalator where everybody stands, and yet even to stand still one has to keep moving. Zero growth—meaning that anything which does expand does so at the expense of something else—is an unbelievably explosive situation because worldwide demand is exploding in quality and in quantity.

What can save us is, on the one hand, to prevent any productive re-

source from stagnating and, on the other, to try to work out new global industrial plans to meet with the increasing global demand.

We live in a transition stage between an international economy and a world economy, simultaneously encompassing both the age-old distribution pattern of production factors and the physical dislocation of production and value centers. And if we are unable to manage this transition process, or rationalize it at its best, the whole world will collapse—dragging all of us down, rich and poor alike. Somebody, perhaps, may have the meager satisfaction of that tramp who starved on the mattress under which he had hidden a hoard of gold.

Need for World Planning

There is a compelling need for world planning that permits the best circulation and utilization of all resources available—technological, human and financial.

At present, however, the suitable political structures at the world level are lacking. We can see that attempts to enlarge and strengthen them are resisted by a revival of economic nationalism and protectionism. But we fail to realize that planetarization of needs and expectations has already crossed over national and regional borders, and that no sanitary cordon can isolate anybody from the outside world.

Role of MNCs

This is the proper context for understanding any and every role of the MNCs. Actually, MNCs have so

far exhibited the frame of mind of the world economy. Indeed, they have behaved as if they were actually living in the climate of a world economy system. It is from this philosophy that their achievements and, initially, their failures have been derived.

One cannot deny that MNCs are one of the most valuable vehicles for circulating managerial skills, technology and marketing at the world level. They are a kind of "clearing-house" to help Third World countries fulfill age-old needs and new expectations. MNCs, when sticking to their role, are already the operating symbol and the only actual reality of the world economy. But just when there is a great need for the utilization and distribution of production factors, there is a weakening of the MNCs' dynamics for expanding internationally.

Some schools of thought already foresee a threatening storm of conflicts brewing over the relationships between nation-states and MNCs—and this at a time when increased conflicts between nation-states and MNCs will ultimately translate into increased wastes at a world level.

Harnessing the Multiplier

We are all aware that economic conflicts between nation-states result in wastes. We should not forget that unsound competition between MNCs on unsound projects is equally wasteful. At this point we should speak of interdependence. Apart from any semantic definition, interdependence essentially means this: on a worldwide basis, expectations multiply expectations, needs multiply needs, wastes multiply wastes.

Clearly, all the actors in the world arena—nation-states, political forces, MNCs, and representatives of social forces—are already immersed up to their necks in the tide of this malevolent multiplier.

There is no need to bother with intellectuals and anthropologists to know all this. It is enough to listen to a textile worker of a small Italian town, who knows he has to defend his own job against the competition of a worker from Hong Kong.

Therefore, all responsible operators should make every effort to get out of this malevolent multiplier and start thinking about how and where they can lay the foundations for operative mediation at the international level—an operative mediation within

which the various competing interests can find balanced satisfactions through a self-regulating code.

This does not mean that the natural aggressiveness of competition should be checked. Rather, this means that it should be harnessed and given its head, but not up to the point of changing a constructive force to one that effects a net destruction of global resources.

Need to Learn from Past Mistakes

I do not want to appear to gambol on the grass of heavenly pastures so as to avoid the stumbling terrain of earthly fields. To the contrary, my vision springs out of my day-to-day real-life experiences gained as chairman of an MNC, and particularly of an Italian MNC. Indeed, it deals with two sorts of experiences that cannot be separated from each other.

Italy, with her rapid and tumultuous growth, has become a rather anomalous Western country. In Italy we can see coexisting, side by side, the most developed underdevelopment, the weakest industrialized West and the most Communistic East. It is a country where contradictions, delays, anticipations, and wastes represent an actual cross-section of today's world reality.

So recent is the development of Italy that, in recalling past feats, one still feels the smarting burns of past mistakes. When, as a representative of the international business community, I am faced with proposals or choices regarding the future of a developing country, I often feel that I must be scrupulous about avoiding some of the mistakes we made in Italy. My generation of economic operators has witnessed in the underdeveloped South the building up of isolated industrial plants and sparse infrastructures which now are filed under the label "cathedrals in the desert."

Today I am supposed to make a kind of balanced judgment about whether Fiat should expand its operations into new countries, and in particular into Third World countries. In this connection, I will only say that through its operations, Fiat has gained a reliable image as a transnational corporation. This is confirmed by the fact that, in the last few years, my corporation has received increased demands to come in and set up operations, especially from de-

veloping countries.

I would say that the guidelines for our operations abroad are flexibility and rationality, on the condition that excessive flexibility does not prejudice rationality itself.

We often try to match our initiatives with the actual needs of the host country on the basis of its stage of development and by taking into account its plans and priorities.

Where concrete opportunities exist, we also seek to give a positive contribution to the national balance of payments through financial arrangements with local capital. The types of participation range over a wide gamut, from total stock ownership to joint ventures of various styles, from significant equity participations to coproduction agreements or turnkey combinations of plant and know-how.

In all these contexts, we try to involve existing entrepreneurship or stimulate the rise of new initiatives. The creation of local entrepreneurial talents is one of the most important functions MNCs are called on to perform. Actually, the problem is to induce the economic operators of host countries to be ever more technically and industrially minded, thus enabling them to walk by themselves with no chaperonage at all.

Need for Realistic Decisions

We are fully conscious in our operations of the need for a global vision of development, and we seek to convey the same vision to our partners. Thus having "world consciousness" of the issues at stake, MNCs should also speak their minds on the adequacy and feasibility of a country's development plans.

Multinationals must have the courage to say "no" when there are not suitable conditions of a positive nature to start the type of collaboration required. The image of an MNC is built on facts, but it is also based on the capacity and opportunity to refuse projects which are illusory solutions for the real possibilities of a country, and which are likely to add to worldwide wastes.

When refusals are motivated by such economic and financial considerations, the corporation has a duty to put them forward. As a result, many questions may arise. Are there valid conditions to initiate the type of industrial cooperation requested?

Are there the proper infrastructures and economies of scale to meet the relevant targets? Further, on the financial plane, are the necessary financing sources available?

From their past experience, MNCs have accumulated sufficient reasons to legitimately say "no." But a "no" from a single MNC is not always enough to cause a project to be revised or put aside. Unfortunately, there still remain those forms of unsound competition which I mentioned earlier. That kind of competition is unsound just because it hinges on unsound projects.

Fiat's Operating Principles

At the moment, Fiat Corporation has no written code of conduct. Our code of conduct is to be found in our operations. I could add that our operations so far are in full accord

with the recent codes of conduct worked out by responsible international bodies. This code of ours, based on facts, should ensure that our behavior is proper.

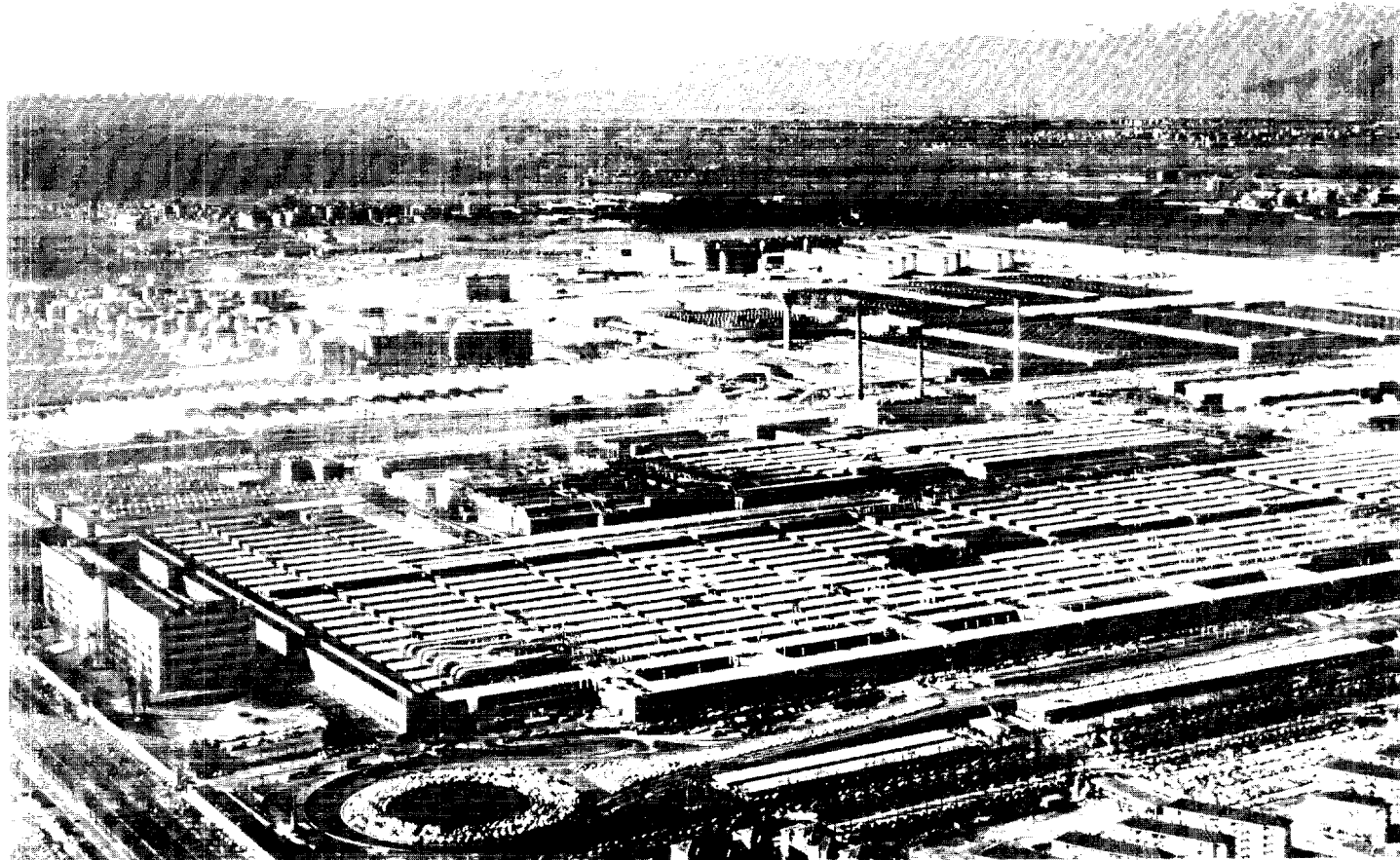
The quality of the behavior of an individual MNC towards nation-states may be sufficient to solve "moral" issues. But the solution of moral issues alone is not enough. What is most needed is a global rationality which would provide guidelines for all the actors on the world scene.

We have already reached the point of opening a "grand debate" between the responsible leaders of nation-states and the representatives of MNCs. However, one must go beyond that: one must find the suitable spot where the dialogue may be institutionalized and where the representatives of social forces are also involved.

"There is a compelling need for world planning that permits the best circulation and utilization of all resources available. . . ."

Fiat main assembly plant (Turin, Italy)

Courtesy of Fiat



Nestlé

NESTLÉ OBJECTIVE: Assisting Developing Countries

by Arthur Furer

For more than half a century, the Nestlé "industrial adventure" in developing countries has been a viable business experience because, as Dr. Furer reveals, Nestlé:

- Looks beyond the company's need for a reasonable rate of return on investment and responds to socioeconomic needs of the host country.
- Builds factories in rural areas—"the first link in a chain of activities which all contribute to the economic and social development of a region."
- Integrates "totally" into the host country while contributing to the industrialization of that country.
- Provides industries which help to fulfill short-term and long-term development goals of host countries.

It is now more than 55 years since Nestlé started its adventure in the developing countries. It was in Brazil in 1921 that Nestlé manufactured condensed milk in a developing country for the first time. Like all the other Latin American countries, Brazil was a far-off land where people still went to make their fortunes. The journey from Switzerland to Brazil lasted many weeks; it was often quite an experience. This venture in Brazil was followed by many others in Latin America, and then later in Africa and Asia.

Today 89 factories all over the



ARTHUR FÜRER is Managing Director of Nestlé S.A., a company with an established international reputation. Before beginning his nearly 25 years of service to Nestlé, he held positions as attorney and legal adviser to Swiss steel and machine companies. Dr. Furer is on the Board of Directors of the Swiss National Bank, is a member of the Federal Commission for Trade Policy and serves on the boards of several Swiss economic organizations.

Third World manufacture annually 980,000 metric tons of Nestlé products, i.e., about 23 percent of the total output of all the factories manufacturing our products in the world. These companies in the developing countries employ a total of 35,700 people.

In the course of our long and extensive experience in these countries, we have often asked ourselves: What can a multinational company do to assist the developing countries? The word "assist" should be understood in the sense of "participate in the development of," since a company which works in a foreign country does not go there primarily to "assist" but, of course, to develop its own business and to obtain a reasonable return on the capital and effort invested there. For the activity of a multinational in a host country to be viable, however, there must also be benefits for that country: both immediate economic benefits, such as the replacement of imports by local manufacture, and indirect benefits of a less spectacular nature, i.e., the socioeconomic effects of the setting-up of a factory, which are less obvious but extremely important for the development of the country.

Multiplier Effects of Building a Factory

The most valuable assistance a multinational can give to a developing country is the building of a factory which will provide jobs and regular salaries and thus give security to the families of workers and employees. The establishment of a factory is the first link in a chain of ac-

tivities which all contribute—directly or indirectly—to the economic and social development of a region. Take, for example, what happens when Nestlé decides to build a milk products factory in a rural area of a developing country.

First of all, the building of a factory puts the architects and engineers of the company in close collaboration with those of the country. Nestlé supplies its knowledge and its experience of the requirements of the food industry acquired in numerous other countries. The local engineers and architects supply their knowledge of the region and local customs and their contacts with the building companies of the region. The work given to the local architects, engineers and building companies is considerable. Nestlé's experience and requirements contribute to improving the knowledge of the local experts. This new knowledge often later benefits national enterprises, and this is the first of the indirect benefits.

The decision to build the factory makes it necessary, once the approval of the authorities is obtained, to provide the appropriate infrastructure: roads, electricity, water and so on. All these services benefit the population of the region and improve their standard of living.

While the factory is under construction, its future supply of fresh milk must be assured. The local farmers must therefore be convinced of the advantages of modern techniques of milk production, and they must be educated in the basic principles of hygiene which contribute

Nestlé representative provides farm technical advice to local dairy farmer.



to improving the quality of the milk. The farmer is taught to take care of his cattle, to feed them properly and to plan the growing of fodder crops and the construction of silos for the conservation of fodder. This assistance to the milk producer from veterinarians and agronomists goes on without interruption as long as the factory operates. The experience acquired by the farmer is of permanent value to him and may be used in other national industries, such as cheesemaking, which will subsequently be established in the region.

Frequently, the new techniques and the resulting high-quality milk benefit the populations of the nearby towns which draw their supply of fresh milk from the milk district. These are *indirect* benefits resulting from the development of the milk district. The most important *direct* benefit is the guarantee given to the farmer that all his milk will be bought by the factory at a fair price. This means security for him. The money he earns enables him to buy more cattle and to improve his standard of living.

Helping National Industries Grow

Staff is needed to manage the factory: foremen, head mechanics, electricians, accountants. All these employees are trained by the company and learn the most advanced techniques. This training already starts when the factory is being built. It continues in the factory itself and in specialized centers in the country and overseas. Each employee has the chance to improve his position.

Inevitably, some executives leave the company to work in national companies, which thus profit from the experience and training acquired in our factory. Here is a further indirect benefit which contributes to the industrialization of the country.

As soon as possible, the manager of the factory, who is usually an expatriate in the beginning, is replaced by a host national. On the basis of our long experience, we believe that a foreign company which establishes itself in a host country must integrate itself totally into the country and employ, whenever possible, local people in key posts.

The milk districts are vast, often extending around the factory in a radius of more than 200 kilometers.

There are many milk producers. In order to collect the milk and deliver it daily to the factory, the "milk route" is created. Local transport companies develop enormously as a result. New jobs are made available. For these companies and their workers, the presence of the factory is a guarantee of work and of regular payment. Here again is a community of interests. The factory needs the transporters and the transporters would not exist without the factory.

The factory also contributes to the development of other national industries such as the manufacture of tins, cases, cartons, and printed labels—creating new jobs and work. All these companies must meet very high standards and, whenever necessary, Nestlé assists them with advice based on experience gained in our countless contacts with similar enterprises in other countries, both industrialized and developing. This contribution of technology, which may be considered as indirect, is in fact permanent and becomes extremely important: it benefits other national industries that use the services of these same companies.

Also Many Indirect Benefits

The new factory is often the center around which a whole region develops: the living standards of the population increase and educational facilities can be improved. Taxes are paid to the community not only by the factory but also by the other companies servicing the factory and by the milk producers and employees of the factory. The community is able to build schools, as well as provide drainage, an efficient water supply and electricity. The economic cycle is in motion.

But the indirect benefits do not stop there. The milk products from the factory must be sold. A commercial and administrative organization

must be created to deal with the development of sales in the whole country. This again means jobs, training of personnel and commercial and administrative executives in the techniques of management—executives who can reach the key posts of the company.

The products must be transported all over the country. Again the transport companies find their business increasing and the same applies to wholesalers and retailers. These benefits extend way beyond the region of the factory, to many parts of the country.

The creation of a factory for the local manufacture of a Nestlé product is very often the beginning of a whole industrial adventure. As other products are added to the range manufactured by the factory, this extends the direct and indirect benefits already mentioned. When the production of the milk district reaches maximum capacity, or when other national industries establish themselves and the increased population must be supplied with fresh milk, the factory can no longer increase its production. Thus, to satisfy the growing demand for tinned milk, a second factory must be built farther away and a new milk district created. A new region will be opened to development.

After these long years of experience, I believe that it is:

- thanks to this philosophy of creating factories which transform local raw materials in these countries,
- thanks to our willingness to integrate totally into the economic and social life of the country, and
- thanks especially to the fact that the development of our industry is in the interests of the host country, that Nestlé has been able to be so active in these countries and thus participate to a modest extent in their development. ☺

Newsweek

NEWSWEEK PRIORITY: Free International Flow of Information

by Robert D. Campbell

Mr. Campbell believes that the international flow of news is vital to "the functioning of today's increasingly interdependent world." He emphasizes that:

- His company operates overseas not only to make maximum use of its resources but also to fulfill a special responsibility—providing accurate knowledge on a global basis.
- Newsweek brings unique, intangible benefits to countries overseas—providing decision-makers and concerned citizens with "reliable, disinterested reporting and analysis of events."
- In order to perform its informational function Newsweek requires freedom to cover the news, freedom from government dictates and freedom to circulate its product.
- The economic, technological and social benefits of a freer international flow of information will ultimately prevail over attempts in some areas to constrain it.

I am always a little startled whenever I hear someone refer to Newsweek, Inc. as a multinational corporation. We have operated on an international basis for so long—long before the term "multinational corporation" was coined—that we tend to regard it as a normal condition of business life. The fact that Newsweek, in one form or another, circulates in 156 countries and territories, is printed in four continents and has business or editorial offices in 33 different nations is so much a part of our daily consciousness that it no longer strikes us as in any way remarkable.

This is not to say we take our multinational role casually. In recent years we have put more emphasis than ever on our international operations. Our two newest editorial ventures—the separately edited International Edition which we launched four years ago and the year-old New Product and Processes Newsletter—were specifically designed to serve the needs and interests of non-American readers. Substantial sums of money and a significant percentage of our editorial staff have been committed to these ventures, and we have every intention of continuing to expand the size and number of our internationally oriented enterprises.

Special Responsibilities

Why do we devote so significant a portion of our human and financial resources to markets outside the United States? The primary answer

is the obvious one: to enhance our profitability by making the best use of our resources. Like so many other corporations, American, European and Japanese, we have concluded that if we were to concentrate exclusively on a single national market, however large, we could not hope to realize our full growth potential. Specifically, we have recognized that we are one of a relative handful of publishing organizations with the editorial, managerial and marketing capabilities needed to handle truly international operations; and that only by maximizing our international involvement can we achieve the full-est utilization of those capabilities.

But profitability through maximum utilization of resources, important as that is, is not the whole story. For although it cannot survive without business management, a publishing company is different from most other businesses. Without being pompous or self-righteous, we at Newsweek feel that being in the communications business imposes special responsibilities on us. It is not enough for us to make and merchandise a desirable and reliable product in the most profitable markets we can find.

Our product is information—a commodity whose accurate and timely exchange is vital to the functioning of today's increasingly interdependent world. And since Newsweek is one of a very few communications organizations with the resources to report in depth on developments all around the globe, we do not believe that it would be re-

sponsible for us to use those resources solely for the benefit of any single audience.

As we see it, our obligation to help keep our readers in Manila informed of what is happening in Madrid is just as great as our obligation to keep readers in Albuquerque informed of what is happening in Atlanta.

Inevitably, this role as one of the major international conduits of information directly affects Newsweek's position on the kind of treatment that it has a right to expect from



ROBERT D. CAMPBELL is Chairman of the Board and Publisher of Newsweek, Inc. He is also a Director of the Washington Post Company, of which Newsweek is a division. During his years with Newsweek, Mr. Campbell has held positions as West Coast Advertising Manager, U.S. Advertising Director, Publisher of Newsweek International, Executive Vice President, and President. A veteran fighter pilot of World War II and an experienced jet pilot, he holds the rank of Brigadier General, U.S.A.F.R.

national governments around the world. And it also gives a unique dimension to the benefits we bring to the countries in which we operate.

Providing Accurate Knowledge Globally

In purely economic terms, what Newsweek wants of the countries in which it does business does not differ significantly from that of other multinational corporations. Access to the market on a fair basis, a realistic currency exchange rate, the right to repatriate profit—these and other such prerequisites for successful business operation are as vital to us as to anyone else.

Similarly, the tangible benefits which we bring to the countries in which we operate are relatively conventional. In Australia, to take just one example, we are directly responsible, between our editorial operation and our business office and printing works, for the employment of some 70 people. And as a major advertising medium our indirect contribution to employment levels, while unquantifiable, is surely very large. By helping Sweden to sell goods and services in Singapore—and vice versa—we contribute significantly to the economies of both countries. And the same thing applies to dozens of other nations.

But, as I pointed out earlier, there is a unique, if intangible, set of benefits which we bring to the countries in which we do business—and even to countries in which we merely circulate. A society run by men without accurate knowledge of developments elsewhere in the world is a doomed society. Even in those countries where the local press has been reduced to a mere propaganda vehicle, the top decision-makers must have access to reliable, disinterested reporting and analysis of events in the outside world. (If anyone needs evidence that this is the case, it can be found in the fact that each week 330 subscription copies of Newsweek International go to Moscow and 120 more to Peking.)

In many free or relatively free societies outside the United States, Newsweek performs an even more important role: it supplies politicians, businessmen, professional people and just plain concerned citizens with a depth of information on the international scene which their local

media, for lack of globe-girding resources, often cannot supply.

Optimum Climate for Reporting

In order to perform this function, however, Newsweek must have an operational climate quite different from that required by the ordinary manufacturing or marketing company. First and foremost, we must have the freedom to cover the news. We cannot keep the people of Japan informed on what is happening in Jakarta if we are not permitted to send a correspondent to Indonesia. Similarly, we could not give our readers an accurate picture of developments in the Third World if, as has been loudly urged at a recent series of UNESCO meetings, our only source of information on those developments consisted of government propaganda purveyed by a so-called Third World News Service.

Our second requirement for successful operation is closely related to the first. Newsweek cannot function properly as a conduit of accurate, disinterested information if individual governments attempt to dictate what we may and may not print. Indeed, it is precisely the fact that many governments do, in greater or lesser degree, impose such dictates on their own press that makes the local media in large parts of the world at best a highly distorted mirror of reality.

Finally, Newsweek cannot fully perform its informational function where national governments deny most of their citizens the freedom to read us. Fortunately, this is not a common occurrence outside the Communist world. At the moment, in fact, there is only one non-Communist state—Uganda—that consistently refuses to let Newsweek circulate within its borders. But periodic banning or excision of unwelcome articles is reasonably frequent in a number of avowedly democratic societies.

Let me make it clear that as a multinational corporation Newsweek, Inc. is keenly conscious of the many very real and legitimate differences between nations in customs, attitudes and behavior patterns. Our editors and managers will never wittingly offend such legitimate sensibilities. Nor does Newsweek consider itself in any sense above the law; we ask no immunity from the laws of libel or from the normal legal

constraints upon the publication of false and damaging reports. And even where no legal offense is involved, our editors are always ready to hear arguments that they have done a person or an institution injustice and, if persuaded, to make public amends.

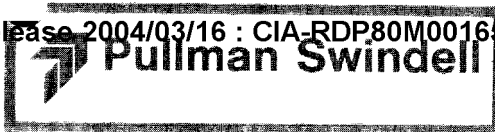
In short, Newsweek accepts that, like all human institutions, it is fallible and capable of improvement. What we cannot accept is the right of any government or political body to try to convert Newsweek into an instrument of its will or to silence the magazine because it has reported facts that someone finds unpalatable.

Optimism over Freer Flow of News

The conditions I have just outlined are, in a sense, modest. They are the minimum required not only for the operation of Newsweek but for the operation of any responsible organ of information and opinion. Despite that fact, they are by no means universally accepted, and in recent months a number of concerned observers have voiced the pessimistic suggestion that constraints on the international flow of news are certain to become increasingly widespread—particularly in the developing countries. It is not hard to find justification for such fears, but, for all that, I remain an optimist on this issue.

There is, it seems to me, a strong parallel between international dissemination of information and the internationalization of commerce that has taken place since World War II. Undeniably, there have been numerous ups and downs—and occasional rude setbacks—in the development of a more integrated world economic order. But, on balance, the economic benefits inherent in a freer flow of trade and capital have prevailed over national rivalries and ideological mistrust. By the same token, I am convinced that the economic, technological and social benefits of a freer flow of information will also ultimately prevail. ■

“A society run by men without accurate knowledge of developments elsewhere in the world is a doomed society.”



VIEW FROM PULLMAN SWINDELL: Meeting Mutual Expectations

by Donald E. Stingel

Teamwork—by both the corporation and the host government—is essential to the successful and efficient completion of overseas projects. Mr. Stingel, now an international business consultant, bases his comments upon his recent experience as President of an international engineering corporation. He notes the following:

- **Early professional engineering advice can help a government with project planning, making it both practical and realizable from the very beginning.**
- **Upholding “reasonable and clearly justifiable contract demands” is an imperative for both parties concerned.**
- **An engineering corporation can only operate in a climate that permits it to make a reasonable profit and to have the full cooperation and active assistance of the host government.**
- **“Once this need for teamwork is met by corporation and client alike, the foreign government can become an excellent and repeat customer for the technology that it seeks.”**

Pullman Swindell, based in Pittsburgh, Pennsylvania, is deeply involved in the worldwide transfer of technology related to its know-how in the steel, foundry, ceramic, mining, and minerals industries, as well as in the public works sector.

We are engineers, consultants, technical advisors, and constructors of plants in many countries of the world. Through long years of experi-

ence we have built our overseas business to a level where the great majority of our employees are engaged in work for foreign countries themselves or quasi-government entities in those countries.

Mutual Benefits and Respect

Our business is based on mutual trust and respect far beyond mere words in a contract or agreement of understanding. Rapport and respect are the keynotes of our relationships with our customers.

The benefits to Pullman Swindell have been many, not the least of which have been increased employment, higher profits and establishment of a reputation for good work performed in many parts of the world. The benefits to our host countries have also been very positive—efficiently operating plants and facilities of latest design brought on stream within a reasonable time and within budget to add materially to the economy of those countries. These nations range from the Soviet Union, Poland and Yugoslavia in the Eastern bloc; to Zambia, Sudan, Algeria, South Africa, and Egypt in Africa; Iraq, Iran, Indonesia, India, Japan, Australia, Saudi Arabia, and Malaysia in the Eastern Hemisphere; and practically all the countries of Central and South America.

Case History of Investment

Our experience in dealing with foreign countries is similar to that of many other international engineering

corporations, both U.S. and foreign based.

When we first do work for a foreign government, we initially become a party to some type of formal agreement, however brief, whose fulfillment will help that government in its planning toward the realization of a basic part of its short-term or long-range objectives for industrial development and growth.

Usually we are involved in initial feasibility studies concerning potential industrial plant facilities such as a steel mill, an iron foundry, a ceramic brick plant, or a public works project such as a railroad. In turn, these studies often lead into longer-term construction-engineering contracts to enable the actual building of the plant or project proven practical and desirable during the feasibility study phases.

Sometimes we are chosen as turnkey contractors for a given project, and in such cases our responsibilities go well beyond the preparation and implementation of engineering drawings. As a turnkey contractor working in a foreign country, we not only become involved in the complete engineering and construction of a plant, but also become directly responsible for the technical training of foreign nationals, both in the host country and in the United States, as well as assisting in the start-up and commissioning phases, turning over to our governmental customer a completely viable industrial operation.



DONALD E. STINGEL, now an international business consultant, served as President of the engineering company Pullman Swindell from 1973 until his recent retirement in 1977. In addition to his career at Pullman Swindell, Mr. Stingel's occupational background includes senior-level managerial positions in both Union Carbide and Airco Corporation. Among his numerous affiliations, Mr. Stingel is the Vice Chairman of the Commerce Department's Committee on East-West Trade, a member of its Advisory Committee on Multilateral Trade Negotiations and a representative on the U.S.-Egypt Trade Council.

Need for Realistic Planning

Naturally, in any business dealings between a U.S. international corporation and a foreign government, the corporation must be permitted to make a reasonable profit. Any agreement negotiated between a foreign government and the corporation must be negotiated in a climate of mutual understanding and business respect, with the realization that the corporation must make a profit to exist.

Particularly in those countries where there are few trained and experienced engineering technicians, it is essential that those governments engage outside professional engineering organizations to advise and assist in discussions and negotiations for new facilities. If this is not done, it becomes next to impossible for that government customer to arrive at a mutually understandable and clear-cut plan and an agreement with a U.S. or foreign corporation for the realization of a given major project.

Our usual experience is that the government of such a country wants a new facility—for example, a new, completely integrated steel mill to make a wide variety of products—but has no idea of the true cost or complexity of such a project. Early professional engineering advice will help this inexperienced government plan the project so as not only to be practical and realizable from an initial size and investment standpoint but also to enable later expansion at minimum cost when such expansion is truly needed. Many major projects originally announced by developing countries have bogged down because they are poorly planned as to size, makeup and product line. The investment required soon outruns the available funds to construct the project, so many such projects never

become a reality.

After such chaotic experiences many foreign governments, especially those in the developing nations, are hiring engineering consultants and technical advisors, either from the United States or from other highly developed nations, to help in project planning so that major expenditures for plant facilities can be fully justified both from an investment payback and an end-use need standpoint.

We have recently entered the bidding on an extremely large steel complex in Africa that probably will become one of the most comprehensive turnkey-type projects ever attempted. The international consortium eventually awarded the total responsibility for this project will design, engineer and construct the entire industrial complex, and will be responsible for the total process flow as well as installation of all the necessary equipment. In addition, the turnkey contractor will provide certain of the raw materials for a given period of time, ensure attainment of production goals and dispose of a portion of the production itself for many months after start-up of the plant.

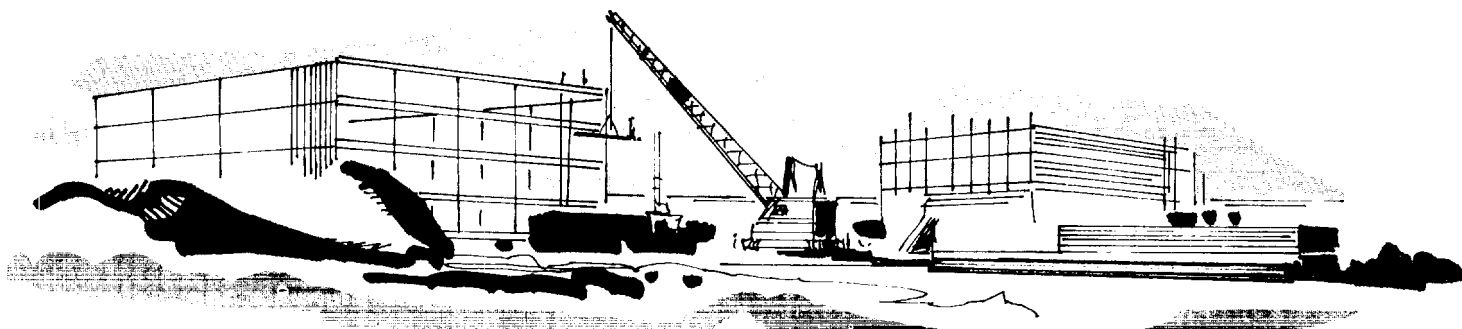
There will be a vast program of training associated with this project. Prior to and during plant start-up, foreign nationals will receive advanced comprehensive technical training over extended periods of time in the United States, or wherever the consortium is based, as well as in their own country. Further, the turnkey engineer-contractor will be responsible for the planning and construction of associated off-site structures and facilities—a social center complex, a medical center, administration buildings, sports arenas, and possibly housing for employees and their families.

Need for Reasonable Contract Demands

Of course, the international engineering and construction entity expects the foreign government to keep its contract demands reasonable and fully attainable. During negotiations with some official government representatives of foreign trade organizations, it is apparent that they are convinced that any corporation or consortium must be extremely wealthy. They believe that the businessman can afford any given amount of added expense or penalties that the government may want to impose. These mistaken beliefs often lead to demands that, from the contractor's side, eventually go well beyond the intent of the written basic contractual obligations signed in good faith between government and corporation or consortium.

In the initial bid phase of a turnkey job, some foreign governments have imposed severe restrictions which have prevented many corporations from bidding because of excessive and potentially indefinite downstream responsibilities. One example: a corporation may be forced to agree in advance to find project financing for a foreign government's project before initial engineering has determined the potential cost and scope of the project. This is particularly true in many of the less developed countries where the sophistication of experience has not yet been reached. In many cases the poor credit ratings of some of the less developed nations discourage financing institutions from providing the backing required for what are, in fact, desperately needed projects.

Foreign governments should recognize that pre-engineering studies and proper estimates of scope and cost comprise only a small portion



of the potential final cost. If such feasibility studies are performed completely independently of future financial commitments, the preparatory costs will not only eventually save money in total project investments, but will also make the international corporation less wary of bidding.

In the engineering-contracting business, even beyond the need for reasonable and clearly justifiable contract demands, we expect the foreign government to understand and accept that, as part of our normal code of business ethics, we do our work in the best possible manner and in the shortest practical time, and do not resort to bribery or other such forms of coercion. Otherwise, from a practical standpoint, our reputation would be quickly tarnished and our ability to earn profits reduced. We also must agree that it is in the best interests of the government entity to get its project into total operation quickly in order to get a return on investment and put people to work as soon as possible.

Need for Full Cooperation

Once an agreement is signed between the foreign government and the international corporation, there must be full cooperation. To ensure the smooth flow of work and attainment of goals on both sides, the international corporation expects the foreign government's active assistance in implementing the project. Burdensome bureaucracy must not be allowed to cripple the intent so carefully stated in the contract between the parties. In most cases, the government must establish a special project task force to assist the international corporation in completing its work. Some of the responsibilities of such a governmental task force include the handling of problems related to customs, delivery of goods and housing for the contractor's employees so that the contractor can concentrate on the project itself.

Costly delays are not uncommon at some foreign project sites due to a lack of cooperation between separate governmental ministries. For example, in one actual case in-

ternational corporate personnel unfortunately found themselves without adequate housing and other associated facilities because the ministry of housing of that country would not honor contractual agreements made through the ministry of industry. Early recognition of such problems by authoritative government officials saves both time and money.

As a foreign government's association with the international corporation lengthens and expands, a high degree of continuity of responsibility should be maintained. Corporate personnel and government officials normally work closely together to consummate the initial agreements. It would be best to continue these same associations throughout the complete implementation of the project for best results. However, sometimes we will deal initially with a cooperative group of foreign government people in the preparation of a feasibility study, sign the contract and then work with a completely different and unfamiliar group of official representatives in the execution of the project.

Particularly in the less developed countries, the host government must also be prepared in advance to deal with the cultural and economic shock that can result directly from a massive engineering and construction project. Changes and disruptions in travel, working and living routines may ensue on short notice. The movement of personnel and shipment of equipment may overwhelm the country's transportation facilities, and new demands may strain various utilities systems beyond their capacities.

Case Example: Negotiating a Steel Mill

I would like to refer to a specific project, as yet unrealized, in a developing nation, as an example of international corporations working with host government entities. For nearly four years, Pullman Swindell and other international corporations invested untold time and money for preliminary engineering studies in an effort to pin down what the host government wanted in its proposed expansion of the basic steel indus-

try. The government first chose as its objective a new, fully-integrated steel mill, and opened negotiations with international engineering corporations for proposals. After many delays the host government then rejected this plan in favor of further review and changes in direction, such as building only certain new elements rather than a whole new mill. This brought about new studies followed by further proposals. Many changes, revised proposals, and years later, still under official governmental review, plans for the projected industrial expansion have returned to point zero—a new, fully-integrated steel mill.

Need for Teamwork

Returning to the main theme of the article (what governments and corporations must expect from each other), once a contract has been awarded by any foreign government to an international corporation, the government must then establish and maintain a continuously open line of communications with the corporation. This is absolutely necessary to approve drawings, scope or process changes, and to settle day-to-day differences. Time-consuming and expensive misunderstandings can be cut to a minimum when responsible people on each side, and with the proper approval authority, have adequate communications facilities and contacts at hand.

There is no doubt that international engineering-construction corporations expect cooperation from their foreign governmental clients. With a new industrial facility as the end product, the unencumbered assistance of the foreign government's authoritative representatives is unquestionably a prime requirement of the engineer-contractor. Once this need for teamwork is met by corporation and client alike, the foreign government can become an excellent and repeat customer for the technology that it seeks. In turn, the international corporation can continue to be a source of know-how to that government so that it can become ever more reliant on its own industrial base. ■

“Any agreement negotiated between a foreign government and the corporation must be negotiated in a climate of mutual understanding and business respect. . . .”

XEROX

XEROX GOAL: Establishing Long-Term Relationships

by C. Peter McColough

When Xerox invests overseas, it does so with the expectation of establishing long-term mutually rewarding relationships with host countries. Mr. McColough points out that:

- A stable political climate and economic situation are important considerations in investment decisions and enable the company to take financial risks in developing innovative new products.
- It is mutually beneficial to host governments and to Xerox that the company be given "the opportunity to comment upon, contribute toward and help influence basic change."
- Xerox contributes to world economic development by making technology available, employing people, educating them, paying taxes—and insisting that employees comply with a strict code of business ethics.
- Xerox asks for fair, consistent and equitable treatment from host governments.

Much can be gained from a frank exchange on the expectations of multinational corporations and the host nations in which they operate. Through such open dialogue, we can learn of one another's purposes, as well as one another's problems. Once that important groundwork is firmly established, we share a clearer understanding of what multinational business is all about, and how both



C. PETER MCCOLOUGH is Chairman, Chief Executive Officer and Chairman of the Executive Committee of Xerox Corporation. After receiving both legal and business degrees, Mr. McColough began a 23-year career in Xerox, which culminated in his selection as Chief Executive Officer in 1968. He serves on the boards of Fuji Xerox Co., Ltd., (Japan), Rank Xerox Limited (England), Citibank N.A., and Citicorp, and is active on numerous business, educational, international, and civic organizations, among them the U.S./U.S.S.R. Trade and Economic Council and the Overseas Development Council.

governments and corporations alike can gain from a strong relationship. I am aware of the criticism leveled at MNCs—some of it justified. And yet as head of an organization whose world business operates in more than 100 countries, I firmly believe MNCs are an ideal vehicle through which modern nations can contribute to constructive world development and to the well-being of themselves and their national neighbors.

Why is Xerox a multinational corporation? We *must* be, for a very compelling reason: ever since our earliest days, Xerox recognized that the market for copiers and duplicators was a world market. The need for information is no less in Europe or South America than it is in the United States.

Political/Economic Stability Important

Given the fact that our markets are worldwide, what constitutes a favorable investment climate? I can state our approach to investment very simply. When we decide to invest in a particular country, we must base that decision on sound business judgment. Will we be able to get our investment back? Will we be allowed to earn a fair return on that investment? Will we be able to remit reasonable profits? Obviously, when we see a stable political climate and a stable economic situation, we are more confident there will be opportunity for us to earn a profit from our investment in that country; other-

wise, we must be cautious.

In any situation where the investment of capital is at stake, an important consideration is one of certainty: Will this government's customs regulations be imposed upon us equitably? Is the rate of inflation such that eventual devaluation will reduce our anticipated return on investment? Are tax policies consistent from one company to the next—from one year to the next?

Too often, there is a failure to appreciate the importance of stability—a reasonable degree of business certainty—to the establishment of a good investment climate. Without such stability, and hence without an expectation of earned profits, companies like Xerox will not see the prospect of deriving the resources needed to do the work they must do to grow.

For example, we recently invested several hundreds of millions of dollars in a new product—the 9200 Duplicating System—before we got the first nickel back from anybody. We had to make this commitment years before bringing the product to the marketplace, and the expenditures extended over a decade or more. Without some stability in the markets we serve, we would be reluctant to take the enormous financial risks necessary to develop innovative new products.

My comments on these economic matters are fairly basic, and I probably would have made many of the same comments ten years ago. But

today there are other issues confronting business and government that require attention and are more complex.

Issues of Concern

In the spirit of an open dialogue between spokesmen from both government and business, I will comment on two issues which seem to me of greatest consequence. One issue is government interference; the other, worker participation.

I am troubled by the specter of government interference, for it kills initiative—bit by bit by bit, in its subtle way. One of its most insidious aspects is that it is self-sustaining. Government interference usually results in more government interference. When things are not working very well, there is a strong tendency for some to say: "We have not yet done enough. Let us do some more." And with that, of course, the interference is increased—and the problem grows even worse. Before long, business could be rendered powerless to contribute to the economy and to grow.

I realize that worker participation is a much-debated issue and I feel obliged to express my own views, even though they may well be contrary to those of some of my friends and associates in Europe. As a candid American, I will say that aspects of this movement worry me. Certainly the voice of employees should be heard in the affairs of a company: intelligent people are any corporation's principal asset. And yet I question employee representation on boards of directors—just as I question special interest representation of any kind on the board of directors. In my personal opinion, such actions are unquestionably well-meaning, but they misjudge the role of corporate boards of directors. My quarrel with all such special-interest actions is that they can work as a counterforce to corporate performance, and in the end deprive the marketplace of full corporate service.

Having said that, let me add two comments:

1. Wherever in the world they live and work, Xerox employees are expected to comply with the letter and spirit of the rules and laws of their country. We can tolerate no less. And—especially when the law relates to the conduct of our business—we

have an obligation to make it work for the mutual benefit of all concerned.

2. The world's social order is changing, and it may be that new ways of managing an international business will be among the major changes. Government and business—no matter what their basic philosophical leanings—have a very serious obligation to assure that any changes are for the common good. Changes should not be made precipitously. I was pleased that recently at least four countries—Germany, Great Britain, Sweden, and the Netherlands—resisted efforts to proceed too quickly in the area of "industrial democracy." Change must be thoughtful, deliberate and evolutionary unless we are to make tragic mistakes that hurt all of us.

I would hope that host countries will give us the opportunity to comment upon, contribute toward and help influence basic change. It is in our self-interest and the self-interest of the government that we do so.

Case Example: Benefits to Host Countries

What tangible benefits does a company like Xerox bring to its host countries? In addition to making important technology available to our customers in these countries, our main contributions can be stated in three sentences:

We employ people. We educate them. We pay taxes.

Let me take our operations in Latin America by way of illustration. Today there are some 9,000 Xerox people at work in Latin America; virtually all are nationals of the countries in which they are employed. The main job of each of those employees is to bring Xerox technology to their communities, and that is why education is so important.

To be able to do their jobs, those Xerox people need to be trained in the ways we do business, and learn to understand the technology at the heart of our business.

Just as in the United States, we need bright and aggressive sales and service personnel and, above all, managers, if we are to meet our ambitious goals. Perhaps one of the most important contributions we can make in Latin America is to develop a cadre of competent business managers. Over the past decade our

operations in Latin America have experienced good growth. Therefore we must train hundreds of new managers each year in a very complex business and technological environment. Whether they stay with us—or go to other organizations as, of course, some do—we provide them with a skill of considerable value to themselves as well as to their country.

When you consider that same situation on a global scale, you can begin to see the truly major influence large multinational organizations can have on world development. In just our own case, for example, Xerox today is an organization of more than 100,000 people worldwide, each with the best training we know how to provide.

Further, we insist that all of our people understand and comply with a strict code of business ethics. We are very emphatic about the conduct of our employees. I am convinced that basic morality is one of the most lasting contributions we can make to world economic development.

Long-Term Relationships

In turn, we feel it is fair to ask of our host countries that they apply consistent and equitable rules to us. We know there must be government regulations and restrictions—and we do not seek favoritism, but we look to be treated fairly.

Quite aside from the moral imperative to do so, we know it is good business for us to try to be good citizens, to hire and train local people and to pay careful attention to each subsidiary's balance of payments. We do these things because when we invest in any country in the world, we expect it to become a long-term relationship and mutually rewarding—to Xerox and to our host country. ☺



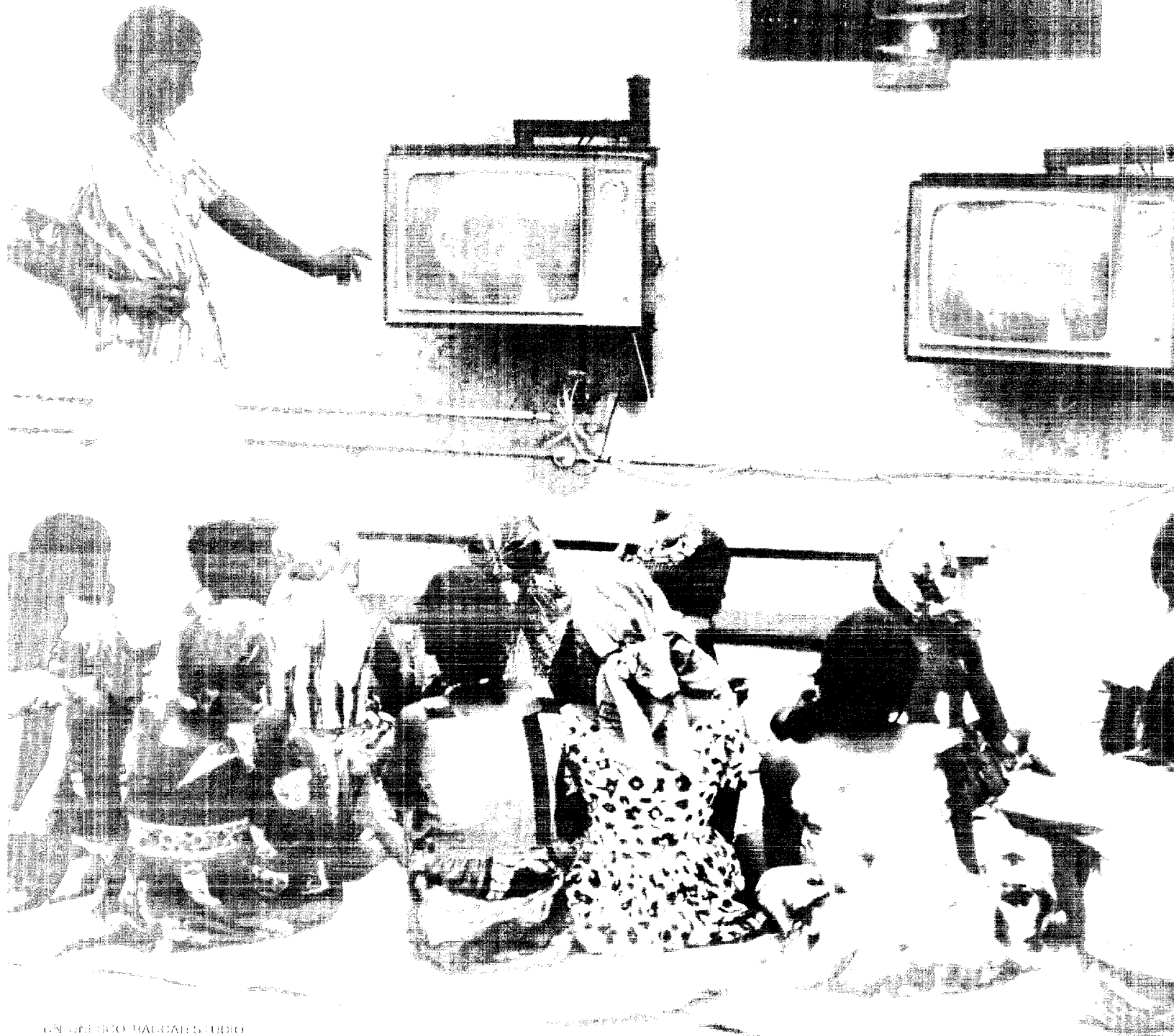
“ . . . MNCs are an ideal vehicle through which modern nations can contribute to constructive world development and to the well-being of themselves and their national neighbors.”



The INTERNATIONAL MANAGEMENT AND DEVELOPMENT INSTITUTE (IMDI) is a nonprofit, educational institute headquartered in Washington, D.C. Its prime purpose is to strengthen corporate management teams internationally through executive seminars, management training, strategic planning, government-business programs, and publishing efforts on the international corporation.

IMDI is associated with a growing network of cooperating institutions in this country and overseas, including The Johns Hopkins School of Advanced International Studies, Columbia University Graduate School of Business, Graduate School of Management of the University of California at Los Angeles, The George Washington University, and the Fund for Multinational Management Education—plus 43 graduate schools and management centers in other nations.

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UN - JERICO BAGGAGE, JEDIO

*"One of the greatest challenges before us as a nation,
and therefore one of our greatest opportunities,
is to participate in molding a global economic system which will
bring greater prosperity to all the people of all countries."*

—U.S. PRESIDENT JIMMY CARTER
United Nations, March 17, 1977

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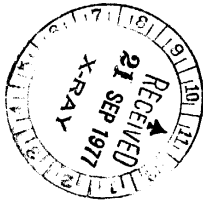
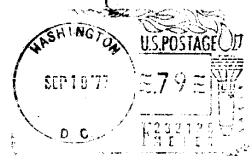
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Admiral Stansfield Turner
Director of Central Intelligence
Washington, D.C. 20505

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Executive Registry
77-1334/1

June 9, 1977

Admiral Stansfield Turner, U.S.N.
Director of Central Intelligence
Washington, D.C. 20505

Dear Stan:


I returned from Mexico City recently to find your June 3 letter with the fine news that you will be our honored dinner speaker for IMDI's December 5 Joint Council Quarterly Meeting.

Since our June Joint Council Meeting was Monday evening, I took the opportunity to announce this to our corporate, government, and diplomatic associates. I know that they are looking forward with great pleasure to your joining them in December.

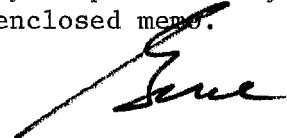
We will be contacting your office with details as the date of the meeting draws nearer.

Thanks again, Stan, and all best.

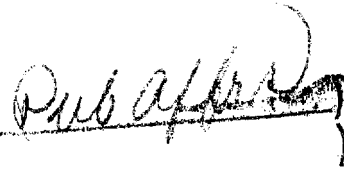
Cordially,


Gene E. Bradley
President

P.S. On another subject, you might be interested in some impressions and highlights of the recent 35-day trip that Terry and I took together: see pages 2-6 of the enclosed memo.



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May 18, 1977

MEMORANDUM FOR IMDI BOARD, COUNCIL, AND FACULTY MEMBERS

SUBJECT: 1. Joint Council Quarterly Meetings --
June 6 and September 12;
2. Highlights of discussions during
worldwide trip

TO:

I have just returned to Washington after 35 days of international travel and will be leaving again shortly for Mexico for our interview with President Lopez Portillo for the next issue of our Top Management Report. But before departing, I want to write you this memo for two purposes:

First, to provide final details on our next Quarterly Meeting -- Monday, June 6, to be convened in the Rayburn House Office Building, (and to give advance notice on our September Quarterly Meeting); and -

Second, to describe a few highlights of our eight-nation series of discussions with foreign Chiefs of State and Heads of Government, NATO and EEC officials, representatives of both American Embassies and American business, chief executives of foreign multinational companies; officials from international organizations (International Chamber, GATT, ILO, UNESCO, OECD) and academia. It was a magnificent experience -- encouraging, enlightening, sobering, even in some areas (such as Eurocommunism) somewhat frightening, but in balance, overwhelmingly on the encouraging side.

Let's begin with the June 6 Quarterly Meeting of our Joint Councils:

- 1) Please find enclosed the final agenda; note we will be meeting in the Rayburn House Office Building, room 2168A, beginning at 3:00 p.m.
- 2) Wives are cordially invited to join their husbands for the reception and dinner beginning at 6:30 p.m. For the June 6 meeting only, because of commencements and other family events, there will not be a special afternoon program for wives. The Women's Program will begin again in September.

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- 3) The theme for our discussion will be "Directions of the New Administration and the New Congress." We are following our usual practice of calling upon a special Steering Committee of Corporate Associates to select questions of greatest interest to U.S. business as a basis for the afternoon discussion. In addition, we are asking each Board, Council, and Faculty Member to review the agenda and the speakers, and come prepared with several questions. This will both enliven and sharpen the discussions.

We are asking those who have not yet informed us of their plans for participation on June 6 to please do so via the enclosed form.

Concerning the September 12 Joint Council Quarterly Meeting, the theme will be "Roundtable Discussions on Economic Policies"; and speakers/discussion leaders will include Austin Kiplinger as chairman, the Honorable Bert Lance, Director of the Office of Management and Budget, and the Honorable C. Fred Bergsten, Assistant Secretary of the Treasury for International Affairs. As you may recall, Assistant Secretary Bergsten was a member of our Board of Advisors prior to his appointment, and is now a member of our Washington Policy Council.

* * * * *

Now, the second point of this memo: trip highlights.

This is a difficult job -- especially in just a few pages. We want to arrange an early dialogue with our corporate and government associates so that IMDI impressions and evaluations will be exchanged with your impressions and conclusions. But in the meantime, given the inadequacies of attempting a summary of several hundred in-depth discussions in several pages, here are a few impressions and considerations:

1. Basic mission: The first priority was to interview or make arrangements for statements by Heads of Government for our next Top Management Report. This mission is nearing completion; "guest authors" are firm from seven nations (Japan, Indonesia, Australia, Italy, Belgium, The Netherlands, and Mexico), plus NATO Secretary General Joseph Luns and EEC Commission President Roy Jenkins. They are addressing this question: "What do governments need and want from foreign international companies?"

Representing business viewpoints -- what international companies need from foreign governments -- will be Fiat Chairman Giovanni Agnelli, Nestle CEO Arthur Furer, Xerox Chairman C. Peter McColough, Pullman Swindell President Donald E. Stingel, and Newsweek, Inc. President and Publisher Robert D. Campbell. Our Top Management Reports, co-sponsored by IMDI Corporate Associates and the State Department's Bureau of Educational and Cultural Affairs, are designed to improve the climate in which U.S. foreign policy and corporate policies are conducted.

2. Impressions on the political climate for international business:

In one sense, there has been a substantial improvement in the political climate compared to even a few years ago. (Compared with a decade ago, the change has been dramatic. We recall the sharp pronouncements at that time by Jean-Jacques Servan-Schreiber, who warned the world to guard against "The American Challenge" and American "corporate imperialism.")

Today, if there is any single theme by foreign governments, it is, perhaps, "Yankee, stay here." Don't dis-invest. Don't fire employees, or "export jobs." The sluggish state of the world economy, coupled with growing uncertainties over the recovery itself, have contributed to the desire by host governments for U.S. investments -- even as U.S. companies grow less enchanted with the idea of increasing their overseas investments.

3. Need for U.S. leadership: Again and again, around the rim of Asia, through the Middle East and into the heart of industrialized Europe, we heard the same theme: "We need, want, and welcome American leadership; for only America has the political power, industrial strength, management, technology and money to get the world economy moving." Our friends cautioned that they do not need or want an arrogant or domineering America; but they truly want our initiatives -- on a self-respecting basis.

In balance, our foreign friends like what they see of the new Administration. As one business leader observed, world reactions have gone through three phases:

- . first, wonderment, "Who is Jimmy Carter?"
- . second, approval -- of the first round of high-level appointees; and -
- . third, concern mixed with hope as to what policies President Carter will actually adopt that will affect their future.

The "hope" seems to outweigh the concerns at this early stage. They want to believe in a fair, free, liberal trade-and-investment world community, spearheaded by the U.S. Government (both Administration and Congress). But one senses that America is under a microscope; and that any major faltering, lack of confidence, or backsliding on our part might well be magnified out of proportion by our foreign friends, with unhappy consequences for all concerned.

4. Nationalism: It is by no means dead. But fortunately, it is alive more on a passive rather than an active basis.

It is obvious to other countries that U.S. foreign investments are not surging ahead at the rate our foreign friends might like -- in Indonesia, Australia, Egypt, or anywhere we visited. Americans are exercising caution for a variety of reasons. How can a new investor in Indonesia

know that the "oil experience" will not be repeated in other fields? How can an investor in Australia know how successful Prime Minister Fraser will be in winning his battle against soaring wages and inflation? (It is evident that the Prime Minister is fighting valiantly and intends to win.) How can an investor in Egypt work around the many obstacles, including horrendous bottlenecks and political uncertainties? (Yet, one can see clear, early signs of progress. As Allis-Chalmers CEO David C. Scott reported in his capacity as chairman of the U.S. Section of the Egypt-U.S. Business Council, "There are many persuasive reasons for U.S. companies to invest in Egypt.")

If a single generalization had to be reached, I believe it is this: more and more nations are now recognizing they must do a better job in competing for foreign investments and be prepared for truly competitive negotiating. The immediate task, it seems to me, is for America to encourage this trend through fresh initiatives and strong negotiating.

5. Labor: IMDI's priority has always been to bring government and business leaders together for the purpose of exchanging views on issues of major common interest, in fulfillment of our own mission, which is "to build closer bonds of unity among men and nations through international cooperation."

While we have not excluded labor, neither has it been in the central stream of IMDI's plans and programs.

This trip brought home the explosiveness of the labor issue -- especially in the minds of European affiliates of U.S. companies. In The Hague, the issue seemed of overriding importance.

Rather than cite statistics, I shall refer to just one example, the case of the corporate president who felt he had to dismiss a "troublemaker," but could not because of labor policies and pressures. So the CEO, knowing that a firing was impossible, instructed the man to simply sit at home and receive full pay for doing nothing for the next three years until his retirement. So it happened. But the union said, "Not so. You deprived this man of his right to work. Therefore, in addition, give him a cash settlement" -- which the CEO was compelled to do.

On the positive side, we witnessed heartening examples of U.S. companies making outstanding use of "work councils" to build employee understanding on corporate goals and the need for being competitive and earning profits. It is a mixed bag, alarming and encouraging -- an issue obviously demanding mounting corporate attention.

6. Corporate credibility: Here in the U.S., corporate top management has been keenly aware that "corporate credibility" is a serious issue. In last year's Conference Board report of critical issues, CEOs rated as their number one concern "growing distrust on the part of the general public."

Our sampling of overseas top management concerns was selective, not exhaustive. But again and again, the response was similar; multi-national corporations of all nations (not just the U.S.), are under suspicion, often attack; they are not credited by the public (including government and labor) for their positive contributions to the communities in which they do business. Here are several representative judgments:

- . From a high U.S. Government official in Europe:
Demonstrating and documenting "corporate social responsibility" should have highest priority, especially in France. Explaining the facts about business is a necessary response to the increasing strength of Eurocommunism, and the damaging publicity currently facing the multinational. There is a definite bias against MNCs.
 - . From a Swiss corporate CEO:
In response to numerous misconceptions surrounding MNCs, it is important to focus on the positive role of the multinationals, especially in the context of the "North-South Dialogue."
 - . From an Italian corporate CEO:
We need recognition for companies as corporate citizens. And for our part, within companies, we need acceptance of codes for a "clean MNC."
 - . From a French corporate CEO:
Recognition by European managers that business is in jeopardy is a relatively new phenomenon. But CEOs are now alert. They are concerned and want to take constructive action to handle the problem with "understanding."
7. Eurocommunism: The likelihood that the French Communists may, within a year, be "helping" to govern France was viewed with apprehension wherever we went. While we were in Europe, business executives from the Patronat Français met with the leadership of the Communist Party, a meeting which degenerated into a shouting match as the Communists defined their goals vis-a-vis business once the Communists had won in the elections.

What business and government leaders expressed to us were the stakes. At stake, in the long run, is not just profitability. At stake is the private enterprise system -- or, if you will, the "mixed economy" in which private business works in harmony with government in such common objectives as R & D, production, economic growth, job creation, and attainment of national objectives.

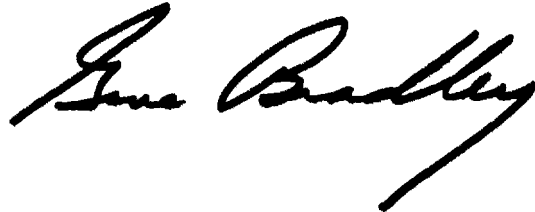
True or false, there is mounting belief that our present economic system is not meeting the basic needs of middle- and lower-income families whose modest standards of living have been sorely hurt by the ravages of inflation. "Business credibility" plummets as the promises of Eurocommunism grow bolder and more eloquent.

Therefore, this conclusion: CEOs are in the very forefront of the battle of social systems. And "corporate credibility" -- or the lack of it -- is now or may soon be an unavoidable issue.

How to come to grips with these government-business concerns is a subject that IMDI will want to address in its programs and publications.

I'm looking forward to our getting together and exchanging views.

With best wishes.

A handwritten signature in black ink, appearing to read "Gene Bradley". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

P.S. We would also like to take this opportunity to welcome the Honorable Harold M. Williams, recently confirmed as Chairman of the Securities and Exchange Commission, as the newest member of our Washington Policy Council. As former Dean of UCLA's Graduate School of Management, Mr. Williams was a member of IMDI's Board of Advisors.

Washington, D.C. 20505

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Pub Affairs

3 JUN 1977

Dear Gene,

Sorry to take so long to answer your letter but I've been juggling my long-range schedule to accommodate your request to address the Council. I think I've now succeeded and can give you a firm commitment for the 5th of December. My office will be in touch with your staff to coordinate details.

Look forward to chatting with you when next we meet. In the meantime, all the best.

Yours,



STANSFIELD TURNER

Mr. Eugene Bradley
President, International Management
and Development Institute
Suite 905, 2600 Virginia Avenue, N.W.
Washington, D.C. 20037

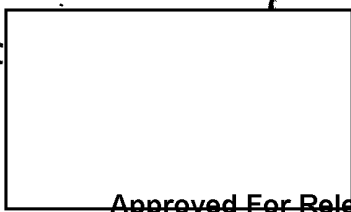
P.S. Hope to see you soon - head is beginning to come up from under water -

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77-1334

May 6, 1977

Admiral Stansfield Turner, U.S.N.
Director of Central Intelligence
Washington, D.C. 20505

Dear Stan:

I am just back in Washington after 35 days of international travel, and I shall be leaving again shortly for Mexico City. The purpose of this travelling is to either interview or secure statements from Chiefs of State or Heads of Government for our Top Management Report series and for The Christian Science Monitor. As an aside, Terry and I had a most interesting interview with NATO Secretary General Luns and a fine session (not for publication) with Al Haig.

Before departing the city again, I would like to renew with you a conversation you and I had before your confirmation.

You may recall that I invited you to be our honored dinner speaker for the Joint Council Quarterly Meeting of our corporate, government, and diplomatic associates which will be convened on Capitol Hill this next month. You advised at that time that in principle you would be pleased to be a dinner speaker at one of our Quarterly sessions, but that June was too soon -- you would like a six-month reprieve -- and that we should invite you again.

We are now making plans for our September and December Quarterly Meetings and would be honored to have you as our dinner speaker for either of these dinner meetings -- either Monday, September 12, or December 5. Our preference would be for September 12, if your calendar is clear.

The afternoon speakers for September 12 include Austin Kiplinger (Editor, The Kiplinger Washington Letter) as Chairman, Bert Lance from OMB, and Fred Bergsten from Treasury.

By way of background on our Joint Council Quarterly Meetings, I am enclosing:

1. The agenda from our most recent Joint Council Quarterly Meeting -- convened in the U.S. Capitol on March 7 -- plus the agenda from the June 6 session to be held in the Rayburn House Office Building;
2. The 1976-77 Report to IMDI Board and Council Members, which on page 4, lists the corporate, government, and diplomatic associates invited to our Joint Council Quarterly Meetings; and

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Dr. Boris Yavitz
Dean, Grad. Bus. Sch., Columbia U.

3. Our current Top Management Report, co-published with the State Department, indicating the educational thrust of our Institute.

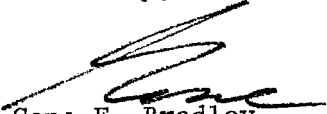
Stan, for our planning, we would be most grateful if you could let us know if you can be with us for either the September or December session. Of course, Pat is most cordially invited. She might be interested to know that wives of all of our Joint Councils are invited to these dinner sessions.

As a final note, Terry and I had an absolutely magnificent experience in our series of interviews in 8 countries. One of the very nice advantages in returning was seeing the staff and friends and reviewing correspondence, which included the color photos of your swearing-in and luncheon.

Thank you very much from both of us.

With all best wishes.

Cordially,

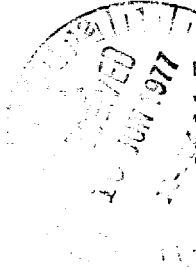
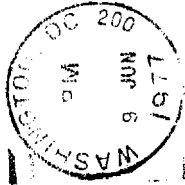
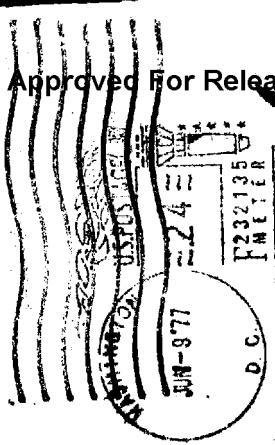


Gene E. Bradley

President

P.S. When we next see you, we will brief you on the superb hour we spent with Al Haig, who is now a member of our Board of Advisers -- and one of your greatest admirers and boosters. What a guy!





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2600 Virginia Avenue, N. W.
Washington, D. C. 20037

Admiral Stansfield Turner, U.S.N.
Director of Central Intelligence
Washington, D.C. 20505

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EXECUTIVE SECRETARIAT

Routing Slip

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8	D/DCI/NI				
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10	LC				
11	IG				
12	Compt				
13	D/Pers				
14	D/S				
15	DTR				
16	A/DCI/PA	✓			
17	AO/DCI				
18	C/IPS				
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EXECUTIVE SECRETARIAT

Routing Slip

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