International Economic Policy: Europe, North America, Latin America

Papers from the 1972 Atlantic Conference

The Chicago Council on Foreign Relations

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The objective of the Chicago Council on Foreign Relations is to promote, by all appropriate educational means, public understanding of the foreign policy of the United States and world affairs to the end that our citizens of all ages may more effectively perform their duties of citizenship.

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Introduction

Senator Frank Church and
Senator Charles McC. Mathias

The four papers included in this volume were prepared for and discussed at the second meeting of the Atlantic Conference which took place at Macuto, Venezuela from November 9 through 12, 1972. This meeting brought together fifty leaders from Europe, North America and Latin America for a private, off-the-record discussion of the subject "International Economic Policy: Europe, North America and Latin America."

The 1972 meeting of the Atlantic Conference continued the series initiated in the autumn of 1970, when a group of forty European, North American and Latin American leaders met at Dorado Beach, Puerto Rico to discuss the subject of "The Role of the United States in the World."

The Atlantic Conference meetings focus on the common problems of the Western World shared by the three continents. The title of the series *Atlantic Conference* is designed to emphasize that these are meetings of leaders from the major nations of the Western World, not simply the United States and Europe, or United States and Latin America. The Conference meets every two years and discusses a specific subject of special relevance to all three continents. The series is now organized and administered by the Chicago Council on Foreign Relations in cooperation with an International Steering Committee.

The site of the meetings alternates between North America, Europe and Latin America. All discussions at Atlantic Conference meetings are off-the-record, and no attempt is made to adopt formal conclusions.

By 1972, international economic issues had become among the most divisive foreign policy issues in the Western World. The measures taken by the Nixon administration in August of 1971, followed by the Smithsonian agreement, focused attention on the fundamental re-alignment that has taken place in world commercial and financial arrangements. Well before the subsequent devaluation of the American dollar in February 1973, international economic policy had moved to the front rank of American foreign policy issues. As a result, the subject for discussion at the 1972 Atlantic Conference meeting centered on three themes:

1 The revision of the international economic system must include new attitudes of common interest and complementarity among all nations concerned. In monetary relations, this shift is heralded by the change from a Group of Ten nations to a Group of Twenty, including representatives of nine developing countries. In trade relations, this shift is reflected by increasing sensitivity that the next round of negotiations must pay far greater attention than before to the interests of developing nations, and especially to the need for greater access for developing country products to the markets of the industrial countries.

2 The growth of the multinational corporation in all its forms is raising issues of profound significance and much complexity. In the past, concern about the functions, operations, and control of these corporations was largely centered in the industrial countries. Today, however, the role of these corporations in areas like Latin America is coming increasingly under scrutiny. The conference participants discussed many alternatives, but in general they agreed on the need to reconcile potentially different interests as between host countries and the multinational corporations themselves.

3 The pursuit of development by Latin American nations continues to include major issues and concerns about relations with the outside world, including both Europe and the United States. Of the

many possible approaches, the Latin American countries themselves will define their interests more assertively, as each one acts to define acceptable beneficial relations with outside countries while pursuing its development goals. West European states, as well as the United States, can and should be involved, though the means are yet to be developed.

These three themes were pursued in the four conference papers:

1 International Economic Peacekeeping: A Sphere of Influence World or a Multilateral World.

2 What is the Political and Economic Role of Europe in the Wake of the Nixon Economic Measures of 1971?

3 The Multinational Corporation: Paths, Pitfalls and Politics Ahead.

4 Latin America and the New Relationships Between the Big Powers.

Discussions at this Atlantic Conference, as in November of 1970, reflected the fact that the larger Latin American countries are playing an increasingly greater role as members of the Atlantic Community. While Europe's role outside of Europe would continue to be a secondary one, discussions indicated that this role can still be important. As international economic issues come to the fore, the question of Europe's relations with Africa also takes on increasing importance for Latin American countries.

The subject provoking the most spirited discussion at this year's meeting of the Atlantic Conference was the role of multinational corporations. In part this was so because a number of Conference participants will be actively involved in the work of the newly-established Sub-Committee on the Multinational Corporation of the U.S. Sènate Foreign Relations Committee.

Once again, the Atlantic Conference provided an opportunity for a completely private and frank discussion of questions relating to the central issues of American foreign policy. It is clear that our Latin American and Canadian friends are apprehensive both about protectionist trends in the United States and about the possibility that the United States will adopt a policy of aggressive economic nationalism. There was general sympathy with the U.S.

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predicament caused by increasing balance of payments deficits, but there was also apprehension that American leaders might yield to the temptation to abandon multilateralism in favor of making unilateral decisions, irrespective of their consequences in Europe, Canada and Latin America.

As the attached list of Conference Participants indicates (appearing at the end of the volume), the meeting in 1972 again included people of broad experience in both domestic and international affairs. The elections in France and Germany reduced participation from those countries this year, but we continued to include a broad representation of leaders in government, politics, education, business, finance and the media from the three continents. For some of this year's participants this was their first opportunity to meet leaders from other continents and engage in serious discussions. For others, it represented on opportunity to continue the discussion begun two years ago. As Co-Chairmen of the Conference, we are gratified by the response of busy men of affairs to the Conference. We are pleased that plans are now firmly established to continue the Conference on a regular basis under the auspices of the Chicago Council on Foreign Relations. We are also pleased to make possible in this volume a broader dissemination of the excellent papers discussed at the 1972 meeting.

We want to express our thanks to the International Steering Committee of the Atlantic Conference, to the Chicago Council on Foreign Relations, to its President, Mr. Richard A. Hoefs. We want to express our special thanks to the principal organizer of the Conference, Mr. John E. Rielly, Executive Director of the Chicago Council on Foreign Relations. Finally we want to thank the distinguished authors of the papers included in this volume, and the institutions (listed at the end of the volume) which contributed financial support for the meeting and for this publication.

Senator Frank Church
Senator Charles McC. Mathias

March 1, 1973

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International Economic Peacekeeping: A Sphere of Influence World or a Multilateral World

Harald B. Malmgren[1]

Politicians in many countries face every day arguments for greater national self-reliance, and counterarguments for greater involvement in regional and world markets.

In Europe there are fears of investment and technological domination by *le défi Americain*, and fears of imports from Japan and East Asia. In Canada, the fear of being swallowed up by the neighbor to the south – culturally as well as financially – is perhaps even more politically potent. In Japan, policies of industry and government are conditioned by apprehensions over the effects of foreign investment on the economic system. In the United States, there is growing fear of job loss through investment overseas and through imports which are seen to displace domestically produced goods. In East and Southeast Asia, sensitivities are high to the increasing presence of Japan, not only as primary market but also as investor, producer, manager, and trader in the region. In Latin America, fears of domination from the north and too much reliance on world market forces have existed for decades. And among most of the developing countries around the world, there is a mood of anxiety induced by seemingly capricious international market forces and exploitive practices of traders and investors from the rich, industrialized countries.

These concerns are amplified by the uncertain evolution of the composition and balance of political power. On the one hand, the great nuclear powers have each other fixed in nuclear stalemate. Their powers partially neutralized, they find themselves competing on even terms with lesser military powers in world technology and markets. On the other hand, less powerful countries grow ambitious for influence and aggressive in defending what they perceive to be their national character. The weakest countries, while struggling for economic survival, are nonetheless increasingly conscious of their ability to disturb the power balance locally as it suits them, while the bigger powers find themselves less and less able to intervene directly or indirectly. The penalties and rewards once set by the nations which provided world political leadership are now often seen to be vague threats and promises. The incentive to conform to a particular system of rules and practices laid down by another nation appears to be weak.

Many of these considerations lead to proposals for increased autonomy and self-reliance, by placing external considerations very far into the background of national decision-making, or by pursuing mercantilistic policies aimed at increasing national power at the expense of other nations. A degree of isolationism or protectionism is latent in all countries, and is easily brought out of dormancy and invigorated by such thoughts.

But working against a spread of nationalism and economic isolationism is another set of forces beyond the control of national governments. Economists have described these other forces as the growth of economic interdependence. Trade in recent years has been growing much faster than the growth in national incomes. Transportation costs have been reduced and communication channels drastically improved. The movement of goods and capital is easier, more rapid, and more responsive to changes in worldwide opportunities than ever before. Economies have become interdependent at the level of investment and trade in specific sectors, as well as at the general level of monetary and fiscal policies aimed at slowing or accelerating whole economies. Interdependence is now felt even in areas like consumer standards or pollution control, where the requirements of one government can affect the position of sellers in other countries who either have to adapt or phase themselves out of the international arena. Perhaps the most visible form of interdependence recently has been the influence of international capital flows on national economies. It is no longer a matter of slight disturbances to domestic monetary policies which nations are likely to suffer. Now international capital flows can force significant changes in policy and in the relationship of an economy to the rest of the world. As suggested in a recent issue of *The Economist* (Sept. 30, 1972), the story is one of growth from ripple to tidal wave:

In March, 1961, as funds moved out of sterling in order to try to find the next uprating currency after the first revaluation of the D-mark, it was possible for a responsible financial observer to write with horror of the day when 'on March 6th alone, $180m poured into Switzerland.' This sent the world's central bankers into the huddle that produced the first postwar central bankers swap arrangements at Basle . . . By 1962 $900m flowed out of Canadian dollars in four days.

By this summer it was possible to see $2.6 billion move out of sterling in six days (the bulk of it in just three days) and then $6 billion out of dollars in just over 13 days (at least half of the total moving in one hour on June 23rd and in two days before the meetings of the EEC finance ministers in London).

These forces of interdependence present a dilemma: On the one hand, the possibility that action (or inaction) by another government can create adjustment problems for a politician may lead him to devise means of insulating his economy from these uncontrolled external forces. On the other hand, the interdependence effects are becoming so large as to defy the dikes of protectionist policies, suggesting a need to design policies which allow the economy to adjust to changing external conditions and to exploit rather than fight the new forces. What should one do? Should the political leader orient his country towards greater self-sufficiency and self-reliance, or towards increased trade and investment relations with the rest of the world?

Some economists argue that there can only be one answer: The need to improve economic welfare in each nation dictates policies which lead to more efficient use of resources. This in turn means that the international division of labor must be exploited through trade and investment activities. The nation must, in other words, be outward-looking and export-minded in order to insure that the benefits of specialization and the pressures of competition are available to the home economy.

In developing this theme, businessmen as well as economists sometimes put forward an additional thesis that the benefits of specialization and competition depend upon economies of scale. The national markets are often too small, they say, to provide these benefits, and so nations must find others with which they may associate in developing regional zones of free (or freer) trade. This latter thought has become a commonplace, an obvious truth, in the press as well as in the political rhetoric in some countries. But is it so obviously true? After all, Japan has grown faster economically than any other country (about twice as fast as the other developed countries), and its growth has been sustained at relatively high levels even when domestic or foreign circumstances have turned adverse. Japan traded, but it did not join regional customs unions or free trade areas. Even the degree of penetration of foreign investment was minimized without damage to its technological and industrialization drive. Among the developing countries, some have tied themselves through special trading arrangements to one or more developed countries, while others have sought relief from their economic predicament in the formation of free trade arrangements on a regional, intra-developing world basis (and even more recently on a non-regional basis encompassing a large number of developing countries that are historically or geographically unrelated). Yet those developing countries which have been most successful in promoting exports of manufactures and using trade as an engine of growth did not rely on special arrangements either with developed countries or other developing countries.

Even among economists there is rarely a consensus. When the prospect of British entry into the European Community became close, a large number of prominent British economists signed a letter to *The Times* endorsing entry as the only sound economic solution to Britain's difficulties. This generated an opposite response from a nearly equal number of other prominent British economists, leading outsiders to conclude that economists had little more than anyone else to contribute to the intricate debate.

The fears and apprehensions, the arguments in favor of inward-looking or outward-looking policies, are not solely academic matters or material for the dreams of visionaries. Nations are taking positions. Some are becoming more protectionist; some are going beyond this to a kind of neomercantilism. Others are joining together in special trading arrangements and developing specific economic links in their decision-making processes.

The most important development, in terms of the scope of its effects on the rest of the world, has been the emergence and growth of the European Community and its association with other countries. The enlarged Community, of what now looks like nine members will be larger than the United States in population as well as in trade, and will approach it in GNP. But this aspect of the Community is only part of its impact on the world. In addition, the Community has developed special trade and other economic relationships with the other European countries (the remaining EFTA countries), with most of the Mediterranean countries, with most of Africa, and with selected other countries, including the Caribbean region.

It has been argued by Europeans that the effects of these special relationships are not as great as they appear. American investment in Europe dilutes the exclusiveness of the arrangements. The discriminatory trading arrangements with Africa and the Mediterranean scarcely have an effect on the trade of the United States and other countries in other parts of the world. Occasionally, perhaps, harm is done to an export of significance to American interests, or to the interests of other third countries – as has happened with citrus. But in these cases, Community officials chastise American officials for expressing any concern at all over such minor products, in the face of the broader political and economic dimensions of these emerging relationships.

These special arrangements gave impetus from the simple fact that, as one nation gains discriminatory terms of access, other nations are thereby harmed unless they, too, are given comparable treatment. The spread of such arrangements within a geographic region tends to be politically inevitable once particular agreements have been reached. Until recently, however, the Community took the position that there was no larger design behind these trade arrangements, and that they were solely a response to particular problems of an exceptional character. Now that the arrangements have become so numerous and far-flung, new arguments have been put forward about the natural political relationship of Europe to its Mediterranean flank, and the natural historical relationship of Europe to its former colonies and dependencies in Africa. A proposal for a full-blown Mediterranean policy was put forward by the Commission to the EC Council of Ministers in early October, 1972, acknowledging the need for harmonization of the variety of special arrangements in the region with a view to an overall political-economic design.

In some of my other papers and speeches, I have dubbed this emerging array of groupings and discriminatory arrangements the "Eurobloc." What are the present and potential effects of the Eurobloc? One effect is already clear. In the international institutions, particularly the GATT, most of these countries tend to go along with, or at least not balk, the wishes of the major EC member nations. When they are negotiating for special terms of access, they certainly dare not stand in the way of any of the member countries on other questions. When they are once in a special arrangement, they prefer not to take positions internationally which might throw into question their own arrangements. What this boils down to is that more than fifty countries tend to position themselves together unless there is a major effort by other countries to loosen the coalition in particular cases. Therefore, the political effect of the Eurobloc is already very large, changing the groundrules for the other great powers as well as for the smaller countries.

It is not enough to say that there is no political coordination within the Community itself, much less within the whole of the Eurobloc. That may be true. But power without *recognition* of power is perhaps more dangerous than power that is recognized and managed. The Eurobloc system operates by its own ever-changing rules and practices, creating uncertainties for the rest of the world.

What does another nation do? Does it join? Does it step up investment from within, to exploit the long-term possibilities within the boundaries of the exclusive club of nations? Does it attack the elements of discrimination in favor of a more open worldwide economic relationship, cognizant that this will create new problems of economic adjustment at home? Does it withdraw to isolationism and protectionism?

These types of questions arise on a far lesser scale with groupings of developing countries, such as the Central American Common Market and the more recent Andean group, the Latin American Free Trade Association, and the Association of Southeast Asian Nations. Yet even in these cases a degree of increased political and economic leverage can be generated by coordinated efforts not only internally among the countries concerned but also externally in relations with other countries of the world.

If we add to all these thoughts the re-emergence of China on the world scene, the rapid growth of economic relations with the USSR and Eastern Europe, and shifts in relative positions of nations like Japan and some of the more economically dynamic developing countries, the pattern of international relationships becomes murky. In this ambiguous situation new alignments are emerging without any clear, underlying pattern to them. Whether we look at the economic pull of Japan on the Asian-Pacific or the formal agreements which constitute the Eurobloc, we can recognize the development of new "spheres of influence." But the nature of that influence is not easily fixed and defined once for all time.

What are the consequences? In the postwar world dominated by the economic and political leadership of the United States, the international "system" was structured and fairly orderly. The United States often initiated or promoted actions which improved the operations of the Western economies and which led to greater interdependence without excessive political cost. There was, in effect, an economic as well as a political-security coalition, in which the United States set the groundrules and stood ready to ease frictions when they occurred. This was rational from the United States point of view. If there is a dominant party in a coalition, it must be prepared to act as provider of benefits to other members of the coalition, especially the smaller ones, if they in turn are to have an incentive to continue to be members and work within the framework set by the dominant party.

The United States leadership was manifested not only in day to day practices but also in the provisions of the international economic rules. The postwar institutions – the IMF, the GATT, the EPU and the OEEC – were more the creatures of American drafting than of proposals by any other country. Critical to the whole formal structure was the principle of nondiscrimination. In the trade field this took the form of the famous principle of Most Favored Nation (MFN) treatment. Under this principle the most favorable terms of access provided one country through negotiations were to be made available automatically to all other countries (or at least all other members of the organization governed by this principle). This principle was, and is, important to United States interests. Since the United States has trade, investment, and other economic interests throughout the world, it is in its self interest to seek the widest possible conformity to nondiscriminatory rules. But this by no means is the only reason for the American attraction to the MFN principle. Taking into account its political-security interests throughout the world, at least in the postwar decades, the United States had strong reasons to insist that smaller nations be given equal access to the benefits of the economic system, or at least that they did not suffer active discrimination. This was not simple altruism. Countries which had equal opportunities were believed to be less likely to go wrong politically. If they were not discriminated against, they were not likely to threaten the system or disturb orderly economic relations within it, and in turn less likely to draw in the United States in a security role. At home, it was well understood that the cut and thrust of American politics would lead to discrimination against many countries which somehow thwarted one or another

American interest, unless there were a rule of nondiscrimination. The rule became important in constraining Americans themselves from doing things which would in the end be harmful politically as well as economically.

The postwar monetary and trading systems have, as we all know, fallen into need of repair. The rules are sometimes no longer relevant; sometimes they are ignored; and sometimes there is no rule or procedure for detailing with what has become a disruptive practice. It would appear that international negotiation for improvement of the monetary system is now under way, and that comprehensive trade negotiations can begin in the latter half of 1973. In theory, then, the systems will be modernized or altered to provide a better framework within which economic affairs will be conducted.

However, this reform of the system will take time. In the interim, the rules of the past are seen to be useful only insofar as adherence to them is convenient for the individual nation. There is an incentive to act outside the accepted framework if one can get away with it. Since even the basic principle of MFN treatment has been eroded by proliferation of discriminatory trading arrangements among other countries, it can be said candidly that the chance is small that penalties will be applied to countries breaching rules which other countries already ignore. Of course, the rules were not always followed in the past. But they did, even in those cases, provide an objective towards which national policies might aim, and a measure of performance which other countries might employ in nudging a difficult country along a path of greater international economic cooperation. Now, the pendulum has swung back and the incentive to act unilaterally is greater, in the absence of credible penalties for doing so.

Moreover, in the negotiation of reforms nations may find the job of drafting new rules and procedures to be far more difficult than in the early 1940's, when the United States and the United Kingdom did most of the work and solved most of the problems between them. Now we must face the fact that power is no longer concentrated politically or economically – or that where it is, it is not capable of being fully used because of the overall military-security standoff. There are several economic superpowers, some already powerful, others becoming so over the next several years. And even those countries with relatively small economic strength have the opportunity to influence the balance of interest by working together to develop common political positions in international bargaining (such as in the C-20). They too must now be weighed in judging who has power over whom. In this new context, the discovery of common rules which suit the needs of many different kinds of nations will not be easy.

We face then a period of uncertainty. It is a time when disorder can arise rather easily. One country's actions can disturb another country's interest even without intention, yet the consequence may be to initiate a chain reaction among several nations as countries jockey to neutralize the effects of the first country's actions, or to build up defenses against future actions of the same type. Whether a government responds to the international uncertainties and potential disruptiveness of the specific countries' policies by turning inward or by becoming aggressively mercantilistic, the result is adverse. More disturbances and uncertainties are introduced. If in such a world one of the superpowers begins to act in an unconstrained manner, the threat to stability in the system becomes many times as great. The sheer mass of the superpowers' practices day to day provides a certain degree of stability and predictability in the system, which benefits little powers and big powers alike. What this means is that a superpower cannot take unilateral actions to relieve itself of particular frustrations without threatening the stability of the system as a whole, and the welfare of smaller countries.

On the other hand, if the system does not function to facilitate international commerce and minimize frictions, and if it does not provide means for smooth adjustment in the face of changing economic circumstances, sooner or later the more powerful countries will need to break out of a pattern which prevents them from adjusting to their own internal economic needs. Indeed, if the international mechanisms for adjustment are not responsive and fair, the situation will not be sustainable. It may then take the shock of large-scale disruption to force governments to change the international procedures and mechanisms by conscious agreement. This was the result of the actions by the United States in August, 1971. The effect has been salutary in this case, and the process of negotiating reforms has begun. But the same type of shock could not be experienced too many times without destroying what remains of international economic cooperation.

What does a government do in this world of changing alignments, growing economic interdependence, and resurgent economic nationalism? Does it draw inward, or become more involved with other countries in the shaping of economic and political events? If the latter, is the best route through joining a limited club or through active participation in a global, multilateral system of rules, procedures, and economic activities?

Even if we can answer such questions from the point of view of a particular country, we may not come up with the right answers for the world as a whole. The advantage to a particular nation may appear to lie in exploitation of the international divisions for its own purposes. But if all nations act in the same way, the ensuing policy conflicts can only lead to frustration for all, and deterioration in world economic activity. Yet we must also be practical. What is good for the world as a whole may not appear directly relevant to or even consistent with political imperatives within each country. Can national interests and aspirations be reconciled with international needs in a way that is meaningful in domestic political debate?

These are difficult questions. There are no simple answers. Governments must do what political circumstances dictate, and these circumstances will inevitably vary from one nation to another. Moreover, the economic situation is different in every country. What is economically sound for one may be unsound for another.

If we accept this inherent variety in national circumstances and objectives, we can still make some judgments about what is needed internationally to minimize fractions between countries, and to provide the greatest chance for mutual prosperity. In other words, we can make judgments about the best methods of managing the international economy, even if our respective views on right policies for individual nations differ.

One way of beginning to rethink the problems is to consider what it is that governments do. Governments exist to control a certain number of forces which would otherwise pit man against man, and to provide a means of coordinating individual effort to maximize collective gain. In doing these things, governments try to routinize human and institutional relations to a degree sufficient to provide regularity and predictability within the area being governed. In developing its administrative control, a government becomes jealous of its sovereignty over activities within its jurisdiction, because it wishes to maintain stability and control. Even if a government is committed to maximum liberty for the individual, it must provide some control to ensure that acts of freedom do not result in internal conflicts.

If external forces seem to disturb internal decisions, governments may look for ways to insulate these internal matters from foreign pressure. If the government finds its economy becoming significantly dependent on relations with the rest of the world, it will seek to moderate the potential damages of changes in international circumstances. It can do this by seeking to negotiate some agreements with other countries which provide rules of the game, or it can adopt policies to favor and provide greater security for those involved domestically in international activity. This in effect extends government control to external activities. Whether selectively or generally applied, the objective will be to reduce uncertainty in decision-making to acceptable levels.

The direction (bilateral, regional, multilateral) and form of government intervention can and does vary with the nature of the problem. If the country concerned has a problem resulting from wide fluctuation in demand for its exports of a particular primary product, and that product is its sole or main means of earning foreign exchange, the government will naturally seek to engage other governments in discussions about the problem of instability for the commodity in question. Another country may be unconcerned with this particular primary product, but highly concerned about pressures for control of its exports of manufactures to one or more key markets. It may in this case seek to have applied some internationally agreed formula under multilateral rules, so as to avoid discrimination. Yet it may well fail in that aim and have to content itself with a bilateral agreement providing at least some degree of protection for its country's interests.

Countries with a high proportion of trade, investment, and financial activity that is generated externally may choose between reliance on general multilateral rules or reliance on special arrangements with other countries most closely tied to them through economic activity. If there are also historical or cultural reasons for developing special relationships, the economic reasons may be conditioned in the direction of a regional free trade arrangement.

When a government moves in this direction, its thinking will at least in part be based on the assumption that economic efficiency will be improved. There will be gains of scale from wider markets and gains from the new stimulation provided by increased competition. But note that the new competition is not from everywhere on everything. It comes, in the case of Europe, from other countries at a comparable stage of economic development. It comes on that range of products which are already produced, consumed, and traded in Europe. In other words, the gains from scale and competition would be achieved within a context which was unlikely to create sharp disruption during the transition to free trade. Moreover, in Europe's case, a large number of rules of economic behavior were dumped up to insure orderly change, and harmonization of national policies. The objective was economic expansion without loss of stability. The new environment was to be managed and controlled as well. Note also that where major issues of national political sovereignty were involved – even in the economic field, such as monetary and fiscal policy — sovereign powers were related by the member nations. Change in these more basic elements of government could only come more slowly and cautiously, if at all, because national practices differ so much, and because more fundamental elements of a government's control of its own situation are involved.

Conditions were right in another respect. For most of the

European nations, trade and other international economic transactions are important parts of income. But the trade of these countries is primarily within Europe. About 80 percent of the trade of Europe is within Europe. So the idea of further integration in trade was itself easy to accept. Little that was new or disruptive would be expected.

Then, too, there were the arguments about developing larger enterprises able to compete with the American giants, and about developing new technology and new industries that were truly European in character – not dominated by American capital and management. This has of course the implication behind it that control is lost if a foreigner has a significant "piece of the action" – even though in theory he is subject to local law and custom in the countries in which he is operating. In other words, the foreign-owned enterprise has the *potential* ability to escape control by moving its activities from the country at will, or by distorting the accounts. This created uncertainty about the degree of control a government *thinks* it has over the economic destiny of its own country.

The whole process of economic regionalism can be interpreted as a process of looking for a better way to manage some of the international economic forces which affect individual nations. For a certain number of relationships between countries, and for certain kinds of transactions between them, a new framework of common rules is established by agreement. Economic adjustment and reallocation of resources can then take place, but in a controlled system reasonably well insulated from major economic shocks which might come outside (from industries or nations in quite different circumstances and with different cost structures or technological characteristics). A controlled, stabilized environment is created, providing stability of expectation on a larger scale than the national economy. A government's own internal consideration can then be weighed within an economic context of controlled, orderly expansion and orderly adjustment.

In a way, we could make an analogy between the formation of a regional trade bloc and the formation of large businesses. After all, if our economies functioned perfectly, under the economists' condition of perfect competition, it would be hard to explain the emergence of integrated business activities spanning a wide range of processes, products, and markets. In fact, the market operates between enterprises, but within them is a mixed system based on administrative controls and plans insulated from short-term market disturbances. The question why this happens was once put in a most penetrating manner by a British economist, Sir Dennis Robertson. Why do we find, he asked, "islands of conscious power in this ocean of unconscious co-operation like lumps of butter coagulating in a pail of butter-milk?"[2] The practical answer is that, for a certain range of activities, given a certain degree of management ability, it is economically efficient to integrate and manage through a system of coordinated decisions which are sensitive to, but not significantly disturbed by, outside market conditions.

I use this analogy to open the reader's mind to reexamination of the basic logic behind international *bloc* formation. An important element of that process is the search for an efficient and stable decision framework which transcends national boundaries, but which does not open the nation to completely uncertain, uncontrolled forces of adjustment. There is international economic interdependence. It has to be dealt with. The problem is to manage affairs well enough to obtain some of the benefits while continuing to insulate one's people from too sharp adjustment difficulties which that interdependence phenomenon can cause. It is a question of determining the optimum size of an administrative system in order for a certain number of activities to be administered. An economic *bloc* offers flexibility in answering the question, because it allows nations to coordinate and jointly administer some activities, but keep others to themselves. Over time, the scope of what is retained by the individual member for autonomous action can grow smaller, and the scope of authority of the *bloc's* administrative system can grow larger, providing in this cautious shift of functions a controlled, stabilized change in the administrative system and in the matters governed by it.

All this may sound a bit abstract, but it seems to me necessary to understand some of the political, economic, and administrative logic which is at work behind events. We can then ask ourselves more intelligently the question raised throughout this paper: "Should a nation turn inward to self-reliance, outward to *blocs*, or outward to an open multilateral system? Where will it find the most sophisticated, most useful answer?" The common answer one gets – that *bloc* arrangements are based on historical and political imperatives coupled with the need to obtain economies of scale – is simply inadequate.

Practically speaking, in trying to answer that question we also have to recognize that there is already a great deal of economic, political, and institutional interpenetration among nations. Multinational corporations are an obvious case, but there are many other forms of international activity which transcend national controls and decisions. Some of these are regional, some are global. The organized institutional activities which go beyond national boundaries make up another set of forces which have to be added to the list of the world's characteristics as I laid out early in this paper.

So it may be necessary to emphasize what has already been suggested, that economic bloc formation is a matter of bringing together *selected* types of activities or transactions between nations -- but not all activities.

There are several problems generated by this selective approach based on a selected group of countries. One is that it tends to discriminate against other countries, and if successful, can become a significant source of disturbance to their interests in the world, and even to their own internal economies. If the grouping operates in a way which results in economic nationalism or mercantilism on a larger scale, then all outsiders are in trouble. This is all too easy an outcome. The process of adjustment within the *bloc* becomes a pre-occupation, and external considerations are given little or no thought. Internal bargaining over concessions to one another, and over the distribution of common benefits, is an arduous process. Once agreed, the internal decisions cannot easily be reopened to take into account complaints from other countries. Conversely, it is soon discovered that the costs of regionalization, of restructuring on a broader economic base, can be at least partially passed on to the rest of the world. (The European Common Agricultural Policy – CAP – can only be interpreted as a device for forcing consumers to pay part of the bill, and forcing other outside nations to pay the rest, keeping internal government costs to a minimum.)

Thus the economic effects of a *bloc* can be a source of disturbance to other nations, and result in discrimination against them for at least some products with some parts of the world.

This is less a problem in the case of a few developing nations associating with each other. Since developing-country trade with one another is small anyway, improvement of business among a few of them does not affect export interests of other developing nations very much.

The logic of such developing country groupings is more related to economic potential over the long run than to concrete short-run gains from mutual tariff and quota concessions. The gains are more likely to be significant through coordinated planning of new investments. This, however, requires significant political flexibility, for each government to yield potential areas of activity to other nations without knowing whether long-term relations will remain secure and friendly. It also raises the difficult question of how weaker members can prevent exploitation by the stronger ones. Such problems are at the heart of regional developing country schemes, and have so far been great enough to stand in the way of meaningful results in most cases.

More thought to such schemes may be warranted, however, particularly if the developed countries could be persuaded to provide development assistance designed to promote such regional integration efforts. Since the quality standards, technological needs, and commodity composition of demand may be relatively among them, promotion of larger-scale production and trade between such developing countries could in the long run turn out to be easier and less costly than promoting exports of high quality manufactures from them to developed country markets.

There remains the question of *blocs* which encompass countries of economic circumstances, such as European Community relations with Africa and the Mediterranean. Here the logical imperative is not quite the same, but there are some clear similarities. Governments do seek to stabilize their economic relations through special, negotiated trade and aid arrangements. For the developing country concerned, uncertainty about export markets is substantially reduced. The flow of aid is put on a planned, agreed basis. Certain other side benefits are provided. The upshot for a relatively less developed country is that normal uncertainties of international markets and the normal political sensitivities and consequent uncertainties of aid relations are substantially reduced. There is created a stability of expectation within which the government of the developing country can, in theory at least, better plan its nation's development.

The problem here is that conditions of access for exports of other developing countries are left unimproved. Consequently, there is discrimination against their exports. If we add to this problem the particular ties to aid flows and technical assistance, one can only conclude that the long-run economic relationship will become channeled, through investment patterns, in an exclusive, bilateral mode. Added on top of these relationships, unfortunately, are the so-called reverse preferences.

These special arrangements do, of course, ensure a secure source of raw materials for the developed countries concerned. In that regard the logic of stabilization and administrative control which has already been put to work within the mother *bloc* is extended selectively to cover certain types of products from the preferred countries -- but definitely not all the potential export products of those countries.

However, it is probably not useful to repeat here the old arguments about discrimination. Instead, we could try to draw some general conclusions about what is happening in the world, and what can be done to ensure that these developments generate some benefits for the world as a whole, or at least do not harm third countries and create serious new sources of international disturbance of disruption.

First of all, forms of interpenetration vary from selective, government-to-government agreements to large-scale, integration schemes. There may also be private, institutional relationships at work at various levels. All of these special relationships are different from what would exist with a completely open, free market situation worldwide. They are designed to solve particular problems by insulating certain activities from other, external forces, or by controlling these activities within a selectively negotiated framework of rules or principles.

If such activities are carried out in a framework which discriminates, as inherently happens, if the solutions are selective among countries, frictions with other countries are likely to be generated. If they are carried out intensively so that internal decisions become complex and difficult to negotiate, there will be a tendency to ignore external interests, or to exact from external suppliers whatever prices have to be paid for adjustment, rather than to face endless internal quarrels over high budgetary expenditures consequent upon integration.

Association between developed countries and small developing nations is likely to pit strong partners against weak ones, without the checks and balances of alternative competition. This is a formula for exploitation. It can lead to political resentment eventually.

But there are also clear economic benefits from integration in some cases. These should not be ruled out. The problem is how to reconcile formation of *blocs*, or the negotiation of selective solutions, with a reasonably stable, liberal world economic system.

How do we reconcile diversity of approach? If selective action tends to work in the direction of pushing adjustment costs onto other countries, of "bumping" other countries, then how can we constrain that bumping effect?

There are no simple answers, but in general it ought to be clear that there is need for more general rules applying to all countries and groups of countries, and selective agreements among countries. Such general rules should provide a framework for keeping economic peace in the presence of a shifting pattern of economic relations and consequent political realignments. As in the past, the system should continue to be based upon a principle of global nondiscrimination, applicable *as widely as possible* among the various groupings. But it should also be a system which helps solve specific problems quickly as they arise, and which provides a stable global economic environment. The uncertainty of world markets should be reduced, insofar as that uncertainty is generated by nationalistic or regionally mercantilistic policies.

Doing this will require at least two things. It will require negotiation of freer trade conditions throughout the world as a whole, cutting the potential margin for discrimination. It will require negotiation of improved multilateral procedures for handling national decisions which have the effect of disturbing the economies or trading opportunities of other countries. In a fluid situation of the type we now face, this will require better mechanisms for international consultation, and a more or less continuous negotiating process which changes the international rules in an evolutionary, but responsive way. The process of negotiation is itself as important as the end results in whatever liberalization is achieved.

The problem right now is to get this larger, global process of negotiating going, and to convince the various countries that it is essential for the long-term security of their world markets that they take part.

If a better multilateral system of rules and procedures can be put into operation – one which reduces the bumping of one nation by another – several problems will be solved. In particular, the government of a smaller, less developed nation will face a more stable or more predictable market situation on which to base judgments about its internal economic policies and its import and export policies. The more stable the environment, the less need there is for that smaller, weaker nation to be defensive and to seek self-reliance, and the easier it will become for that nation to exploit the benefits of an international division of labor without fear of external influences or domination.

As for the biggest *bloc*, the European Community, an external framework that actually sets boundaries to its own actions would help to control the internal bargaining process.

To develop a better international system through negotiation will require a greater sense of collective responsibility on the part of all countries. That may be the hardest requirement of all.

But in the absence of a sound, benign multilateral framework, intensified competition based on self-reliance and protectionism, or on exclusive *bloc* formation, can be the only alternatives. Those routes do offer, for a limited range of activities over a defined area, a controlled environment for planning investment, technological change, and the elements of national welfare. Governments cannot ignore the problem of controlling the economic environment sufficiently to promote the welfare of their peoples.

It could be argued against the "internationalist" approach that sound industrial or agricultural policy in a country or in a geographic region cannot be effective if there is any openness to the rest of the world. It is sometimes said that as governments become increasingly responsible for employment levels, inflation rates, and income distribution, that the international system must be considered a threat to effective management of local interests.

Such an argument cannot any longer be realistically made in that simplistic form. As noted earlier, economic interdependence has already become far too great; reversing it would itself cause economic disruption to the countries attempting it. The problem is to balance the solution of domestic problems through domestic actions against the reactions each possible solution might engender externally.

If there were a framework of rules and procedures that worked, and a sense of collective responsibility for keeping economic peace, then this would not be so very difficult. In fact, if the international monetary and trade systems both worked well, there would be even greater freedom to take appropriate domestic actions. If for example the British economy had not been hostage to the ups and downs of the British balance of payments for so long, internal development might have taken a much more favorable, consistent course. As it was, British governments were constrained by the absence of a really effective international adjustment mechanism which eased the external stresses. As differences develop in the rate of growth, inflation, and unemployment among countries, and governments undertake differing policies to deal with their particular circumstances, tensions and policy conflicts inevitably arise. A sound adjustment system should automatically deal with these stresses, whether through exchange rate adjustments, financial or reserve arrangements, or through a variety of measures of a more selective character affecting the internal economy or certain parts of the balance of payments structure. In the context of an effective adjustment system, national interests could be pursued more "safely," in terms of the external situation. Collective responsibility does not rule out greater freedom of action for governments.

In other words, freedom to develop along certain lines internally, whether nationally or within the scope of an economic region, requires limitations on that action, so that the system as a whole may provide a stable basis on which free action may take place. National decisions, and the decisions of *blocs*, have to be channeled. The bumping of one nation by another's decisions must be subject to clearly perceived restraints. There have to be international rules of the road and procedures for consultation to avoid periodic collisions.

This requirement for a system of perceptible, effective restraints would benefit the major powers and ease the political-economic stresses generated between them. But it would be even more valuable to the less strong nations. They have far less leverage in protecting their own interests. Their high dependence on external forces, including the growth of incomes in the rich countries, makes them especially vulnerable to the transfer of economic shocks generated by the great powers. Conversely, if the international system allowed, and even encouraged, efficient adjustment of economies one to another, and efficient adjustment of resource allocation and utilization, the poorer countries could only be better off in the long run. Among their major problems are the resistance to adjustment in particular sectors of the markets of the rich countries to make way for the exports of developing countries, and the unwillingness of the developed countries to make larger amounts of financial assistance available because of balance of payments constraints.

Over the longer run all countries will be adjusting structurally, in relation to population, resources, technology, national income aspiration, and social objectives. The international mechanisms should facilitate desired change, not impede it. And as they adjust and grow economically, nations will extend their spheres of governmental influence to include formalized relationships with other nations, in order to stabilize relationships that result from changing forms of interdependence. The system must allow this too. We cannot judge now whether such selective international relationships are bad for the countries concerned. On the contrary, such extension of relationships on a formalized basis may well lead to more sensible, less nationalistic policies among them. Diversity of approach is an inherent characteristic of a changing world of different kinds of economies and relative differences in political and economic power.

A sphere of influence world is already with us. Some of the influence is formal, some informal; some of it is selective, some of it more general. It is not a matter of choice between what exists and pure multilateralism, but rather of building a multilateral system which permits peaceful and productive relations among the diverse approaches and instruments used around the world.

Today we are faced with a world in which the patterns of international relations are shifting and ambiguous, and the international rules and institutions are ineffective. System and order can no longer be imposed by a dominant power, because there is no single dominant power now. When countries deal with these difficulties by regional arrangements, they tend to forget that more general arrangements may have to be developed within which the regional solutions can function.

The Eurobloc phenomenon is now the most critical factor in the balance. Ranging from Ireland to Israel and Egypt; from Denmark to Mauritius; from Germany to Jamaica; it has become a superbloc. That gives it both political and economic influence far in excess of what the governments of Western Europe originally intended and far in excess of what is now recognized. But since that *bloc* can now dominate international institutions, its leadership should accept responsibility for establishing more effective global rules and procedures. Otherwise it will accidentally ruin even that remaining degree of cooperation and harmony that exists.

The European Community often argues that it is now very outward-looking with its extensive trade concessions and development assistance relations with selected developing countries. This definition of the term "outward-looking" is nearly opposite of what is meant by the term in American usage. "Outward-looking" means to a United States official being cognizant of effects of national or regional actions on other countries around the world, both developed and developing. It means taking global actions into which regional actions can be fitted; it means neutralizing the effect of discrimination wherever they may harm the present or potential position of another country. Thus, the European Community tends to solve its external problems bilaterally, through selective measures, without at the same time tending to the consequences for the multilateral system. It must now do so, or risk destroying the few remaining incentives for multilateral cooperation which exist under present rules and international procedures.

The United States, for its part, continues to have a strong interest in a fair, effective adjustment system based upon non-discrimination, for the same reasons as those which have prevailed in years past and which were enumerated earlier in this paper. The economic viability of all nations is important to American security as well as economic interests, lest the United States be drawn in again and again to pockets of instability and local conflict. But there are even more reasons today why the United States must look to the concerns of the countries which are less politically strong. The United States needs a reformed monetary system and an improved trading system. Its natural allies in this pursuit should be the developing countries and the developed countries of the Pacific, for they are the countries most in need of a better system and most likely to suffer some damage from the evolution of the Eurobloc. Moreover, the developing countries have much to gain from a better world economic system which can provide for them stability of expectation for their own development plans.

Thus there is a happy coincidence of interest between the United States and many developing countries at this moment in international economic history. Exploitation of this opportunity could lead to mutual benefit as well as to a better multilateral system. It would help avoid North-South dominance by one or a few developed countries which leads to the kinds of frictions which have characterized Latin American relations with the United States or the kinds of sensitivities which exist between developing countries of the Asian-Pacific and Japan. Bilateral solutions are now only disruptive to international economic relations; they can also be corrosive of the political relations which exist between the bilateral partners, at least when the parties are of unequal strength and one is liable to be exploited by the other.

So one can conclude that whatever is done logically or regionally, there is a greater and more pressing task now – to develop a common approach to the management of the international economic system as a whole.

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[1] The views in this paper are personal, and should not be interpreted as necessarily representing the official views of the United States Government or any of its agencies.

[2] D. H. Robertson, *The Control of Industry*, London, 1928.

What is the Political and Economic Role of Europe in the Wake of the Nixon Economic Measures of 1971?

Gian Paolo Casadio

The Goal of a Better System for World Economic Integration

The crisis set off by President Nixon's economic actions of August 15, 1971, constitutes a turning point in international economic relations. It compels Europe to free itself from an assisted-country status and to assume its responsibilities in the world. In particular, the global redistribution of economic power now in progress – characterized by the emergence of the European Community and Japan as great trading powers — induces Europe to pursue the goal of a better system for world economic integration. This should be a system in which the future does not lie in exclusive relationships with the United States, but rather in the development of multiple systems of relationships with the United States, Japan, the Eastern countries, China, Latin America and the other emerging nations. A further opportunity for Europe to play a major role in international affairs is offered by British membership of the Community, taking place on January 1, 1973. Indeed, the enlarged Community will be the world's largest trading unit. It will bring together the principal manufacturing countries of continental Europe with a growing number of developing countries which, to a greater or lesser degree, regard the Community as the principal market for their commodities.

Reforming the Common Agricultural Policy of the European Community

The emergence of a trading bloc of unprecedented size will have profound consequences for the flow of trade, especially in agricultural products. In particular, with the exception of some products which will continue to enter into the enlarged Community free of duty, (oilseeds, soybeans, oilcakes) the extension of the variable levies to the United Kingdom and the alignment of the high agricultural common prices may risk altering certain flows of trade. It is significant that criticisms of this development come not only from the United States, but also from Canada, Australia, South Africa, Japan, the Eastern countries and Latin America. Even the Mediterranean countries, which already receive preferential treatment in the Common Market, will have in several cases to face an increased number of obstacles to entering the markets of the new member countries in the Community.

The creation of an enlarged Community therefore increases the need to revise the Common Agricultural Policy (CAP). It is true that the CAP has acted as the motor of the European integration process (opening the way to the working of other common policies). And it has established a real common budget. From 1975 onwards, all levies, all revenues of the common external tariff, and a fraction of the value added tax will be assigned automatically to the Community budget. Nonetheless, we must stress frankly that the common agricultural mechanisms have largely failed. In fact, the CAP has become very costly without being able to stimulate deficit production, as proved today by the dramatic crisis in beef. According to our estimates, in 1970 the six member countries spent more than 14 billion dollars in direct and indirect costs to sustain the agricultural markets. This is a colossal amount, equal to more than half the value of the Community's agricultural production at domestic prices. On balance, the impact of this situation on world trade has been damaging, because the Community market is isolated (through the variable levies) and surpluses are exported through restitutions granted by the European Agricultural Fund.

The agreements concluded on March 24, 1972, should constitute a first attempt to reform the CAP; but they are not satisfactory. The aims of these agreements are rather modest (especially with regard to the Mansholt Plan forecasts of December, 1968). And they are being realized with considerable slowness. Even more, they have also increased the prices of wheat and milk again – and these are the sectors where supplies outstrip demand! The risk, therefore, is to consolidate a situation of crisis and of ultra-conservatism, when it is more and more essential to have a real revision of the CAP (by regulating the market with relatively low prices, deficiency payments and structural reforms). Europe cannot at one and the same time have an autarkic policy in the agricultural sector, and a policy of free trade in sectors where it is competitive. Furthermore, the agricultural protectionism of a large European bloc would be anachronistic at a time when the European business community is inclined to work in terms of the world market.

It may be that a deep revision of the CAP can be envisaged only in the framework of new multilateral negotiations in the GATT (in cooperation with OECD and FAO), in order to achieve a general adjustment of the agricultural policies of all industrialized countries, all of which are notoriously protectionist. Nonetheless, the enlarged Community should urgently adopt measures aimed at reducing international tensions in this field. In particular, the EEC should make the variable levy system less rigid. It should not be invoked when imports from third countries are justified by the lack of supplies from the member countries. The Community should be less rigid about restitutions granted by the European Agricultural Fund. It should intervene only to make seasonal adjustments, not to offset short-term fluctuations of the world market. Instead, the Community should set up mechanisms to control quantity of production (not intervening beyond certain limits) and its quality (applying, for example, a selective price policy and granting aids according to the quality of the products). It should make direct payments to certain categories of farmers, not to promote production but rather to integrate families' revenues. Such an orientation on the part of the enlarged Community could be favored by the United States if the latter would decide to give up the GATT waiver of 1955, by gradually reducing quantitative restrictions still in force, especially on dairy products.

A Global Approach Towards Third Countries

The enlargement of the EEC also sharpens the problem of the preferential agreements. Of course, the total trade of the enlarged Community (trade with more than fifty countries, many of which are important) will represent about 50% of total world trade. And as a result, fears expressed by third countries concerning the Community's African and Mediterranean policy will pale by comparison with the great problems in general that will face all non-Community countries. Nevertheless, international tension over the preferential agreements could be reduced by the Community's given priority to a series of measures aimed at giving the CAP a certain flexibility. For example, in addition to the measures already mentioned, the Community could reduce the rigidity of the rules regarding the import of processed agricultural products, since many Latin American nations as well as others do rely considerably on those products to promote their own industrialization. The necessity of such action is proved by the fact that the preferential agreements concluded so far refer mainly to agricultural trade. However, these measures would not be sufficient by themselves. The Community would also have to adopt new instruments to overcome the limited horizon of the preferential agreements, agreements which have often been applied in a chaotic way. In fact, with regard to countries such as Israel, Egypt and Spain, the Community has only regulated trade matters, while it has concluded association treaties with countries like Greece and Turkey, and countries like Tunisia, Morocco and Malta are on the verge of association.

By contrast, the attempt to reconcile the opposing interests of European and Mediterranean farmers for several competing products (such as citrus fruit and wine) by limiting the concession on tariff preferences to the offer of a minimum price on the Community market and by applying a safeguard clause, did not give good results. Not only have the protests decreased, but it is more and more evident that the policy based on preferential agreements does not take into account, in a global way, the requirements and the interests of nations such as those in Latin America. The EEC should therefore transform its traditional commercial policy into an external economic policy by defining a global approach towards third countries, and particularly towards the emerging nations. In fact, Europe needs growing quantities of raw materials, while the emerging nations need a large variety of industrial products in order to modernize and industrialize. In particular, Europe and the emerging nations should conclude medium-term "contractual policies" to last not less than five years. These should guarantee stable prices and guaranteed markets, especially in the fields of oil and gas supplies, as well as in the fields of agricultural and industrial supplies.

These agreements should be defined in specific conferences, attended by the producer and consumer countries, in order to plan the production and consumption of competitive products. In the fruit and vegetable sector particularly – which is threatened by growing surpluses – it is urgent to define a regulation dealing with production in order to prevent serious trade wars. Even in the industrial sector, the Community should go beyond carrying out specific projects of industrial policy as, for example, in textiles. It should also favor the creation of free trade areas and customs unions in conformity with GATT rules. At the same time, the EEC should extend the activity of the successful European Development Fund (now applied to the Associated African States and Malagasy (AASM) countries) to other emerging nations, in order to favor both the modernization of the agricultural sector and the starting of specific industrialization projects. Moreover, the European Investment Bank should favor the beginning of a systematic investment policy to create small and medium size factories.

In addition to providing technical assistance, the Community should improve the scheme of generalized preferences now in force, and should end the dispute on "reverse preferences" by granting African countries larger economic aid as with oil-producing crops and for some products financial aid to integrate the price.

With regard to third countries which are not candidates for Community membership – but wish to conclude commercial treaties with it – the enlarged Community should let commercial agreements be considered a first step toward full membership, or should conclude non-preferential commercial agreements with provisions for (1) cooperation among the parties (for example, the insertion of the so-called "benevolence clause" in case of lack of certain products); and (2) exchange of information and consultations on principal international problems.

Such a program may appear too ambitious. Indeed, at first it will interest mainly countries of the Mediterranean area, where it is urgent to attenuate the dangerous tensions in the Middle East. We must realize, however, that we depend in very large part on the imports of raw materials from third countries. Without such imports as iron ore, non-ferrous ores, oil and wood, European industry cannot function. In addition, a Community which assumes world responsibilities must respond to demands for the development and prosperity of all the Southern hemisphere, to which we are bound by historical ties. Moreover, the cost of such an operation would be more than returned in the form of increased security for supplies we need (in a world where competition for raw materials is bound to intensify), and by a reduction of the amount actually spent to preserve the Common Agricultural Policy. A European approach, having a worldwide impact, would allow the Community to go beyond the limits of "regionalism" in order to undertake action in neglected areas. This is the case in Asia, but even more in Latin America. Only recently, with the conclusion of non-preferential commercial agreements with Argentina and Uruguay, and with the beginning of negotiations with Brazil, has the Community started to take an interest in Latin America.

The characteristics of many industrial and agricultural sectors of Latin America could in fact favor the involvement of the Community in an area which is one of the richest sources of raw materials in the world. And this involvement can take place without creating damage or difficulties for North American investments. In the primary products sector, for example, there are agricultural and fishing products which, because of their special quality and availability in seasons different from ours, should constitute the basis of a European commercial policy based on the principle of complementarity. The same is true for the secondary products sector, where an improvement of industrial productivity can be aided by European collaboration. Because of their degree of development, some companies in several Latin American countries are in fact quite similar to the average level of European industries and therefore have to face the same problems. In these cases, European production techniques are more appropriate than those imported from the United States, a country which has highly automatized industries.

The European Community Should Diversify Its Trade

External policies of the enlarged European Community will also help orient Europe towards diversification of trade with the Eastern countries – China, Japan, Australia, Canada, New Zealand and India. In fact, the concentration of trade among highly industrialized countries, while greatly improving the welfare of the Western nations, has also given rise to increased inbalances. In addition to delaying the development of poor countries, these inbalances today favor neoprotectionism, especially in less-competitive and less-advanced sectors of production. Therefore, it is fortunate that by January 1, 1973, a common commercial policy towards the Communist bloc will come into force. Furthermore, economic cooperation between Western Europe and the Eastern countries is receiving an impetus from the admission of several state-trading countries to the GATT system, from increased industrial collaboration and from the early preparation of the Conference on European Security and Cooperation, which will also deal with economic problems of East-West trade.

The trend towards greater diversification in the flow of trade also relates to Community relations with China. Even though the Chinese economy is only now emerging (particularly in the industrial field), in fact it is growing at a satisfactory rate. Within ten to twenty years it will absorb relatively large quantities of foreign goods. Considerable developments should also take place in European trade with Japan. Today only 6% of Community trade is with Japan and only 7% of Japanese trade is with the EEC. However, improvement of economic relations with Japan is feared by European businessmen who worry about the diversion of Japanese products from the American to the European market. European businessmen also seem reluctant to penetrate the Japanese market.

These fears are exaggerated, however. For example, Brussels wants to include a safeguard clause for market disruption in case of necessity. Actually, some form of cooperation with Japan is unavoidable in international markets, especially in the field of textiles and steel products where the Europeans and the Japanese compete for exports to the American and other markets. Besides, the Japanese market offers excellent opportunities for the sale of a large number of technologically-advanced products, while the few European enterprises which have succeeded in entering that market have realized high profits and increased expansion.

More Trade and More Tensions Across the Atlantic

The United States has benefitted greatly from the creation of the European Community. U.S.-EEC trade more than trebled in the period 1958-1971 (from $4.5 to $16.7 billion), and its continuous growth has been faster than the average increase in world trade. Thus in its trade balance with the Community, the U.S. has an important surplus, almost always over one billion dollars annually ($1.7 billion in 1971). Moreover, the United States has been greatly favored by European integration in the sector of direct investments. In fact, nowhere else in the world have American direct investments increased so astonishingly. Between 1958-1971, U.S. direct investments in the six member countries of the Community increased five fold reaching $11.7 billion in 1971, compared with $8 billion in the United Kingdom. And this does not take into account investments in Switzerland or elsewhere.

In this way, U.S. enterprises – whose sales equal four times the value of American exports to Europe – have reached a first-class position in many important key sectors of European industry, such as automobiles, titanium dioxide, synthetic rubber and computers. It is such a first-class position that, according to European Commission estimates, about 7% of Western European GNP derives from American direct investments.

Through contracts, investments in the United States by the "Six" plus the United Kingdom increased remarkably in the last few years, in 1969 exceeding the total value of long-term American investments that year in Europe. But these European investments are mainly in the form of bonds. Less than $3.5 billion in 1970 is in the form of direct interests in production and sales enterprises.

The enlargement of the EC should bring about new advantages for the United States. In fact, British customs duties will conform to the lower tariffs of the common external tariff of the EEC. Thus American enterprises will be able to count on a larger and more homogeneous consumer market than the one at present, a market where they will be in a position to exploit their technological superiority. Moreover, the effects of economic development deriving from an enlarged Community will sooner or later favor the purchase of more goods from the United States, as was the case after the creation of the Common Market limited to six countries. This will be all the more true since British adhesion to the Community should reinforce an "open" common commercial policy. In this respect, it is significant that besides the sugar agreement (favoring Mauritius and Caribbean Islands), and the butter agreement (favoring New Zealand), a new agreement has been reached permitting special entry to the Community for twelve products, such as paper pulp, aluminium and zinc, mainly from Canada and Australia. Also, free trade area agreements covering industrial products from the non-Community EFTA countries (Austria, Switzerland, Portugal, Sweden, Norway and Finland) comply with the terms established by GATT.

Finally, we must remember that the European Community has already granted a few concessions to the United States (e.g., reduction on citrus fruit customs duties and wheat-ensiling engagements). Furthermore, countries which will have to bear some increase in customs duties, on products exported to the new member-countries, will benefit from the reduction of other customs duties in the GATT.

Notwithstanding these facts, in the United States today the EEC is thought of as an "inward-looking" body. This opinion is not correct. In the industrial sectors, Community tariffs are the lowest among industrialized countries. In the post-Kennedy Round era, only 13.1% of Community tariffs exceed 10% (compared to 38.3% of U.S. tariffs), and only 2.4% of Community tariffs exceed 15% (compared to 23.7% of U.S. tariffs). In addition, in the agricultural field American preoccupations may appear to be justified, as we have underlined. But we should also not forget: (a) that the European Community is always the most important market for American exports; and (b) that in spite of certain difficulties for some products, during the period of 1964-1971 U.S. exports to the Community increased from $1.2 to $1.7 billion and that 40% of U.S. exports enter the Community duty-free (in particular, in 1971, imports of soybeans reached $800 million). Actually, it is not the United States which has sustained the damages of the CAP, but rather the emerging nations and some other third countries, such as Denmark, which almost lost the German market.

Concerning non-tariff barriers (NTB), it is true that Europe has several restrictions regarding public procurement policies and road taxes on vehicles with high horsepower. But the United States is also not an "open market." In fact, according to the estimates of Fred Bergsten, NTBs effect a yearly consumption reaching not less than $100 billion in the United States. One-fifth of U.S. industrial imports are subject to quotas (compared with only 4.3% of European Community industrial imports), while the so-called "voluntary" agreements imposed by the United States (regarding important products such as textiles and steel) have proliferated in the last few years. With regard to customs evaluation practices and methods, the United States, in addition to maintaining the American Selling Price for valuing benzonoids, continues to value hundreds of items of the so-called "Final List" with old methods that provoke an increase in import duties. Besides the American Administration imposes more and more anti-dumping duties, giving priority to its own legislation enacted in 1921, instead of aligning itself with the international code concluded in 1967 in the Kennedy Round. And it imposes countervailing duties automatically. Then there is a large variety of further NTBs – for example, the "Buy American Act" of 1933, which allows the federal government to give priority to the purchase of American products. There are administrative controls which impede or at any rate make it difficult to export on the American market. These include the requirement that foreign ships cannot carry goods between two American ports. And with the Law of December 1971, the U.S. Congress has put into effect the Domestic International Sales Corporation (DISC) – the only measure of August 15, 1972, still in force. By delaying the payment of taxes on 50% of the profits obtained by U.S. enterprises operating in international trade, DISC artificially favors American exports.

The Need for Better Mutual Understanding

The solution to the problem of economic contracts as between the two sides of the Atlantic does not lie in a direct confrontation. Such a policy – started with President Nixon's measures of August 15, 1971 – could have the merit of inducing Europe and Japan to be conscious of the new economic and political realities of the seventies. But, it would present serious dangers for the Western world. If a "tough" U.S. attitude towards Europe should consolidate – and, on this, the position taken by Wilbur Mills in a recent statement to "Der Spiegel" is alarming – the result would be the creation of economic blocs, whose opposed interests would mean political and economic disaster for the Western world. The problem, on the contrary, is to avoid fragmentation of the world economy. It is therefore essential to replace the policy of confrontation with a policy of cooperation, to start and open a concrete dialogue between Europe and the United States that will inspire a reciprocal spirit of responsibility.

In order to bring about this new approach, it is important to de-emphasize those problems which in the last few years have created tension and a spirit of distrust on both sides of the Atlantic. In particular, Europe should get used to the ideas of revising its agricultural policy and of overcoming the limited horizon of its preferential agreements. It should also consider the dollar as convertible not into gold but into goods, services and shares of American companies. The United States should abolish the American Selling Price (which in Europe is the symbol of American protectionism), and, while waiting for reform of the international monetary system should adopt measures aimed at insuring Europe against any loss deriving from a further devaluation of the dollar. But it should also get used to the idea of having a deficit trade balance, more and more compensated for by direct investments abroad. In 1971, in fact, U.S. repatriated profits reached almost $10 billion, compared to $3.56 billion in the 1964-67 period. In 1975 this amount is expected to reach $17 billion.

The United States cannot expect to obtain, at the same time, both a trade surplus and substantial advantages from its direct investments, whose value in 1970 represented over $78 billion compared to $30 billion in 1960. Capital exported by the United States, which should continue but in a better equilibrated framework, stimulates production abroad which obviously replaces potential American exports. Besides, it is quite likely that, before the end of this decade, Europe and Japan will transfer a growing part of their production to the emerging nations and thus will also have a deficit trade balance, compensated by the profits of direct investments abroad.

Nor should we continue to discuss unreal problems. Thus, the United States should recognize that the value added tax (VAT) is not an NTB, but rather an indirect tax like sales taxes existing today in 46 of the 50 American States. In conformity with the internationally accepted principle, the VAT hits products where they are consumed, so that neither the local product nor the imported one enjoys any fiscal advantage. Similarly, Mr. William Eberle, the Special Representative of President Nixon for Trade Negotiations, recently stated that, "agriculture is a sector as any other." But to sustain this thesis means in fact to impede any constructive development in beginning new international negotiations. It is well known that in agriculture, the economic theory of international division of labor based on compared benefits cannot be applied without necessary and considerable correctives. In particular, as stated before the U.S. Congress by Roger Savary, Secretary-General of the International Federation of Agricultural Producers (FIPA):

> The orientation towards a moderate protectionism in the agricultural sector would represent enormous progress in comparison to the present chaotic situation of world agricultural markets, when the industrialized countries have no intention of abandoning the agricultural policies which they have followed for the last 50-80 years.

For their part, the Europeans should follow the advice of Fritz Machlup and "should get rid of the idea that everything can change (productions, wages, etc.) while exchange parities remain firm at any rate, even using insane measures such as those of the double market value." Actually, with flexible exchange rates, every country is compelled to handle its own inflation. Yet if the European countries insist on rigidly maintaining their own monetary parities, instead of modifying their exchange rates rapidly and frequently in periods of trade deficit or surplus, they should be resigned to facing the consequences of recurrent monetary crisis and the consolidation of restrictive practices in international trade, especially in the form of more widespread "voluntary" agreements.

Finally, it is evident that all parties have an interest in starting new negotiations on monetary and trade matters as soon as possible, instead of insisting on the priority of a global or parallel negotiation.

The World is Waiting for Europe to Play its Role

The interests and functions of the United States and Europe do not have to be necessarily identical. In fact, the world needs a Europe that through a clear and far-sighted policy takes the initiative in playing a moderating, original and incomparable role as intermediary. In particular, Europe should take the opportunity of its enlargement to direct its energies to not extending an agricultural policy which is a failure, but rather to suggesting a new pattern of society, to answer the desire for development expressed by the whole Southern hemisphere and the imagination of the young. This new pattern of society would be different from the American affluent society, which has fascinated us for a long time, but which today shows its limits.

In regard to economic matters, specifically, Europe should expedite the coming into operation of the economic and monetary union, thereby to favoring an industrial policy which allows the growth of industries with a high technological content and the promotion of multinational enterprises in the forms and limits which are necessary to protect the legitimate interests of each country. The economic and monetary union would also favor a policy for sources of energy, a transportation policy, a social policy, an harmonic regional and urban development and an adequate protection of the environment.

The need to unite Europe does not aim at undermining the deep solidarity with America. "A European monetary zone," Rinaldo Ossola has declared, "has never had the intention of becoming a bloc opposed to other monetary areas. Our aim remains a world system." "The working of a European policy," Richard Gardner said, "could simplify the putting into effect of a large program of cooperation to liberalize trade in the interest of the international economic equilibrium." And the fact that a stronger Europe would be in a better position than in the past to bargain with the United States over world rules of commerce, investment, and money – rules less geared to American specifications – should not excessively worry our partners on the other side of the Atlantic. After all, the forces and stimuli of a fair competition constitute the basis on which the Western world is built. Better Atlantic cooperation in the economic, technological, social, and strategic sectors will more than offset wounded interests, while it could become a stabilizing factor for the whole international system. In addition, Europe's initiative appears indispensable if we consider that today the United States, after the failure of its Vietnamese policy, does not have the necessary political strength to lead the world and, worried by domestic problems, is obliged to make a basic revision of its national priorities.

Of course we agree with the United States about the danger in Europe's not having solid and coherent bases on which to build its political will. In fact, even if the enlargement of the European Community brings with it the factors which could unify Europe, we do not yet see those elements which could really induce the European countries to speak with only one voice. Thus, for example, we do not see how it would be possible to think of rigid exchange rates within the EEC, or even of a common currency — as part of the important problem of the monetary union – when there is no supranational authority able to impose coherent guidelines. It is also significant that Europe has rejected the view of a managed and flexible European monetary policy, supported by former German Finance Minister Karl Schiller. This perspective would have considerably accelerated the European process of unification. Thus, while enlargement makes Europe economically more powerful and more conscious of its political role, it does not have the essential instruments to enforce its will.

Today, disintegrating factors – such as the awakening of nationalism in every European country – are joining with a retreat towards the intra-governmental type of cooperation actually to weaken the European process of unification.

To overcome these dangerous trends, and get through the delicate organizational phase of the enlargement operation, the European political class should be conscious of the absolute need to create common centers of decision making. The European political class should also be reinvigorated through the inclusion of younger and better prepared people. Such centers should be based on democratic principles, giving vitality and imagination to European policy, in order to meet the wishes for international solidarity held by new generations to whom Europe appears today as a too-centralized and too-bureaucratic construction.

In developing such an effort, Europe needs more than ever to have the political support of the United States. In renewing its policy of consultation and cooperation. The United States could join in rebuilding the Atlantic partnership while taking into account the deep changes taking place in international economic relations and the new political problems of defense posed by the envisaged reduction of American troops and the evolution of East-West detente. During the next few years of European unification, the United States should encourage Europe to give higher priority to external economic relations. For the U.S. to follow a different approach would mean a further deterioration of Atlantic relations to a point of crisis for Western unity.

Decisive effects would flow from an American attitude of indifference and neglect or, even worse, either unilateral imposition of new measures – such as those of August 1971 – or an attempt to dissolve the process of European unification in an Atlantic free trade area. Particularly under the impulse of the Soviet diplomatic offensive which will materialize in the Conference on European Security and Cooperation, and in trade negotiations between the European Community and COMECON, Western Europe could move to a neutralist position such as Finland's.

Renewing the Practices and Institutions of Atlantic Partnership

The United States and an enlarged EEC should therefore begin as soon as possible a large scale and pragmatic effort to improve the workings of a renewed Atlantic partnership in all its aspects. This would provide a broader context for a resolution of differences between the two continents.

With this aim in mind, and in order to avoid misunderstanding, it would be necessary to organize the dialogue between the two continents by creating a mixed party committee between the American government and the European Community countries, the latter speaking through the unique voice of the European Commission. Such a committee should have the task of dealing with daily problems of trade, investment and monetary matters facing the governments, in order to prevent conflicts, to avoid discrimination, and to suggest constructive solutions. These consultations should take place on a continuous basis, i.e., in all economic situations, not just at moments of acute difficulty. They should therefore be undertaken within an institutional framework, at the Atlantic level. In fact the numerous non-political problems which have occurred between America and Europe in the past few years have seldom been openly and specifically discussed on a multilateral basis.

In order to return to habits and practices of close consultations within the Atlantic world, it appears necessary to agree on the desirability of concerting on the preparation of new trade negotiations within the GATT framework. The aim of such preparations would be to make negotiating procedures easier. (The U.S. administration will have to ask the mandate of the Congress and the European Commission will have to obtain it from the Council.) Their aim would also be to place the negotiations with a larger context. In the new round of GATT negotiations, it will be necessary to deal with the further reduction of tariffs, the harmonization of NTBs, and the organization of world agricultural markets as well as with the determination of a code of behavior toward state-trading countries that will permit them to be integrated in the world economy. There must also be new and more effective multilateral actions in favor of developing countries. And common action must be begun with special procedures to counter the pressures of neoprotectionist groups. No agreement, even on whose aim is to allow so-called "orderly marketing adjustments," should be permitted solely for restrictive purposes if they are not objectively justified. As stated by Harald B. Malmgren, "The aim must always be orderly adjustment, expansion of trade and a return to liberal conditions of access in due course." In this respect, the Burke-Hartke Bill should be rejected. If it were adopted by the U.S. Congress, it would inevitably mean a trade war between the U.S. and the EEC.

Similarly, common action is indispensable to create special procedures for helping producers and workers adapt to the changes imposed by keener international competition. General plans for restructuring less competitive sectors should be studies by all the Atlantic nations together. This would permit them, within a multilateral framework, to initiate the readjustment of some economic activities like textiles in a relatively orderly way, without causing trade wars and damage to workers.

It is also in the common interest of both the United States and the Community to set the basis for agreements on better coordination of monetary and fiscal policies, to ensure stability for the international system of payments. In particular, it would be quite useful to guide and coordinate capital movements, so that there can be certain equilibrium between deficit and surplus countries. The United States should follow a restrictive credit policy by increasing rates of interest, though without delaying economic resurgence. Meanwhile, Europe and Japan should follow an expansionist economic policy, including lower rates of interest. While the American government should stop the excessive increase of liquidity, stimulated by the uncontrollable expansion of federal public expenditures, a U.S. program aiming at liberalizing capital movements would find Europe in agreement, provided that American obstacles to European direct investments are removed.

Increased economic cooperation on both sides of the Atlantic can also touch on several industrial sectors, including the following: the space industry, especially the post-Apollo program; the nuclear industry, especially nuclear controls and delivery of enriches uranium; the aeronautics industry; and the non-strategic armament industry, to coordinate military research in order to limit costly competition. Similarly, specific consultations should be started on problems of multinational enterprises and the efforts of some countries to regulate them. In the field of defense considerable developments are possible if the United States accepts the principle of the complementarity of nuclear deterrence.

Finally, the United States and the European Community should develop a joint effort, within revised and adapted international organizations like the United Nations, to promote a better distribution of incomes in the world, to face the explosion of violence, to protect us from pollution, and to fight poverty, unemployment and the drug traffic.

Within this institutionalized mechanism of the Atlantic partnership, it would be easier to develop more efficient efforts directed

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towards developing countries, particularly towards Latin American countries. These countries could be favored by (1) the development of Euro-American investments, (2) the promotion of their exports to the American and European markets, (3) the improvement of the generalized preference scheme of the European Community (while wishing rapid approval of the U.S. preferential scheme by Congress), (4) the fostering of Latin American economic integration, and (5) the setting up of specific working groups to consult on the consequences of European Community enlargement, the reform of the international monetary system, and the new GATT trade negotiations which should start in 1973.

This kind of practical measure, addressed to real world problems, would renew the Atlantic partnership and confirm the essential inter-dependence between North and South America and Europe.

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Latin America and the New Relationships Between the Big Powers.

Rodrigo Botero

During the decade of the seventies, Latin America will have to operate within a complex and rapidly changing international context. New powers are appearing (or being acknowledged) upon the world scene. Traditional relationships between established powers are in a state of flux, and a rather encouraging spirit of innovation is bringing diplomacy back into the ranks of serious occupations.

Reasonable care is advisable in order to avoid being dazzled by the spectacular features of recent exercises in summitry. Nevertheless, after making all the allowances required by a realistic perspective, important changes are taking place in world affairs. The following events or trends seem relevant as affecting the international community between now and 1980:

- In economic as well as in military terms the world is moving from a bi-polar to a multi-polar model.
- Western Germany and Japan have emerged as important factors in international trade and finance. In spite of their almost non-existent military capability, both countries are beginning to take diplomatic initiatives based upon their economic success.
- China's new status brings a developing country into the councils of the great powers for the first time. The international recognition of China implies an acceptance of geographical and political reality in Asia.

- The European Economic Community has become the world's most important trading unit. The economic policies and the trade initiatives of the enlarged European Common Market will have a decisive influence upon international commerce.

- It is in the interest of the big powers to avoid a major confrontation. Efforts will be made to maintain conflicts such as those in Southeast Asia and the Middle East localized geographically and in scope. Although the millenium is not yet within reach, a tolerable approximation to world peace can be counted upon.

- The division of the international community along ideological lines is being replaced by the division between Rich and Poor. The redistribution of wealth, income and power between nations as well as within nations is rapidly becoming the fundamental issue on the agenda of humanity.

- A minimum of international cooperation appears possible in the following fields: disarmament, environmental protection, trade and monetary reform.

- The United States is in the process of reducing its international commitments. It will therefore play a less important role in the hemisphere and in the rest of the world.

- The developing countries collectively, as well as individually, will make use of every bit of leverage they can avail themselves of (economic, political or strategic), to shift the balance of world power away from the present overwhelming predominance by the developed countries.

In different ways these trends and events will shape the international community in the foreseeable future. Because it is playing a larger and more assertive role in world affairs, these events are relevant for Latin America. They should be followed closely by the region's leadership and every advantage should be taken of the larger margin for maneuver which they can provide.

However, the relationships between the big powers and the changes taking place in those relationships are not matters of supreme importance for Latin America. They could become decisive only under extreme – and hopefully improbable — circumstances, i.e., a global conflagration or a traumatic and prolonged disruption of the world economy. Barring nuclear (or ecological) catastrophe as well as a repetition of the Great Depression of the 1930's, – events which are undoubtedly beyond Latin America's control – the critical issues for the region are quite different from, and only marginally related to, those that determine the big power game.

The significant fact of Latin America today is that to an un-precedented degree the region is responsible for its own destiny. With few exceptions the decisions that will determine the region's future will be taken within Latin America by natives of the region. But first it is useful to examine the most recent changes in big power relationships with special emphasis on their impact upon the region.

The Emergence of Japan

Although Japan's economic miracle has been underway for well over a decade her appearance as a major independent power on the world stage is a recent development. The year 1971 was a turning point in the relations between the United States and Japan. The announcement of President Nixon's visit to Peking as well as the trade and monetary measures of August of last year, caught the Japanese government by surprise. The political and economic embarrassment resulting from those unexpected events contributed to the downfall of Premier Sato, and thereby brought to an end Japan's postwar role as a United States protectorate.

Premier Kakuei Tanaka has re-established diplomatic relations with China and is already seeking closer relations with the Soviet Union.

Japan's economic success is particularly relevant to the developing countries of Asia. Trade and investment are providing Japan with the "sphere of influence" that it failed to obtain by military conquest three decades ago. Japan is already the most important trading partner of Asia, as well as the largest donor of non-military aid to the region. In an effort to secure supplies for its industry, Japan is purchasing most of the raw materials of the region. Simultaneously Japan's share of the total imports of Asia's non-socialist countries has grown from 14% in 1960 to 26% in 1970; by 1980 i is expected to exceed 40%.

Japan's trade with Latin America has been growing regularly during the past decade. In 1970 the value of Latin America's exports to Japan was US$962.1 million; imports from Japan totalled US$870 million. Japan accounts for about 7% of Latin America's exports to the world. Although not an insignificant figure, it is smaller than the value of Latin America's intra-regional trade (US$1.665.4 million in 1970). It represents about one fifth of the region's exports to Western Europe.

A major role fo Japanese investment in the region does not appear likely. Japan is interested in fuels and mineral deposits and is willing to invest abroad in order to secure their future supply.

With few exceptions, Latin American countries take a dim view of direct foreign investment in the area of natural resources, regardless of the nationality of the potential investors. Furthermore, one does not visualize the cautious Japanese businessmen rushing into the kind of relationship with Latin American countries that has been responsible for so much friction with investors from other developed nations.

Japan is certain o play a major role in any future international agreement on trade and monetary reform. The size of its economy (third largest in the world), the magnitude and dynamism of its external trade and the level of its international reserves (US$13.3 billion in 1971) provide Japan with a leverage in world affairs far beyond whatever influence it could ever obtain on the basis of military strength.

The Re-Discovery of China

A year has gone by since the question of representation in the United Nations and the right to sit on the Security Council was decided in favor of the People's Republic of China. Since then the list of countries establishing diplomatic relations with China has increased while the number of those maintaining diplomatic relations with Taiwan has dwindled. Japan and West Germany have recently raised to 75 the number of countries that have recognized Peking. Argentina, Chile, Cuba, Mexico and Peru have already done so and the probabilities are high that several other Latin American countries will take a similar course in the near future.

The admission of China into the United Nations will contribute to give more meaning to the proceedings of the organization. The region of the world most directly affected by China's new status is Asia. It is now an accepted reality that in the settlement of any major question concerning the Far East, China (as well as Japan) will play a decisive role.

Having finally laid to rest the myth of China's non-existence, restraint will be required to avoid erring in the direction of exaggerating China's size and influence in the community of nations. In spite of her nuclear capability and the magnitude of her population, China is basically a poor, agricultural, inward-looking country that through great effort and remarkable organization is providing its people with the minimum necessities of food, clothing, health and shelter. As can be seen in Table I, China's Gross National Product is less than half that of Japan. It is comparable to that of Canada and amounts to about 60% of Latin America's.

In foreign trade the comparison is even less favorable. China's total exports are about one fourth those of Japan or the United Kingdom, one seventh those of West Germany and one third those of Latin America. Even such relatively small countries as Sweden and Switzerland surpass China in value of total exports. (US$6.8 billion and US$5.1 billion respectively in 1970).

China's trade with Latin America (excluding Cuba) is practically negligible. In 1970 total exports to Latin America were US$900,000 while total imports from the region were US$2.7 million.

TABLE I: *China. An International Comparison*

	Population (millions)	GNP (US$billions)	Exports (US$billions)
China (estimates)	700.0	75.0	5.0
Japan (1969)	103.5	167.2	19.3
Canada	21.4	80.2	16.1
United Kingdom	55.8	121.2	19.4
West Germany	61.6	187.1	34.2
France	50.8	148.2	17.9
Italy	54.5	71.9	13.2
Netherlands	13.0	21.8	11.8
Latin America	266.8	124.5	14.3

Source: For OECD countries: *The OECD Observer*, February 1972, pp. 19-25.

For Latin America OAS Secretariat, UNECLA and Latin American Demographic Center (CELADE).

Unless otherwise specified, data is for the year 1970.

Due to the scarcity of statistics, the figures for China are very rough estimates.

If in the military sphere, power indeed grows out of the barrel of a gun, in the trade and financial battlefields, power grows out of such items as size of the national economy, importance in world trade and level of international reserves. It is a fact of life that for the moment the economic gun that China wields is a modest one. However fascinating it may be to speculate about what would happen if the 700 million Chinese decided to jump simultaneously, start drinking coffee, or demand automobiles, the likelihood of their actually doing so appears remote.

But economics is not everything. The Chinese episode has been instructive for Latin America. The subsequent behavior of the Chinese leadership has not gone un-noticed in the region. Over the years, most Latin American delegations to the United Nations General Assembly voted against giving China's seat to Peking. Effective persuasion on the part of United States diplomacy had strongly identified in their minds the survival of Western civilization with Taipei's claim as the legitimate representative of China. The change in United States policy embarrassed the docile and rewarded the independent-minded governments in the region. The lesson is that it is best to do one's own thinking on these matters.

Latin America's radical youth is also going to have to adapt to the new situation. Recognition has brought China's leaders down from the legendary heights. Suddenly they are behaving as pragmatic politicians, compromising, calculating, huddling with the arch-enemy, balancing one power against the other, striking deals and pursuing selfish national goals. The remote demi-gods are now ordinary mortals carrying on the business of government and diplomacy with more or less skill but much like the leaders of other world powers. China's position on the India-Pakistan war, the question of nuclear disarmament, or membership in the United Nations for Bangladesh can only be understood in the light of her national interests. The faithful will argue that of course China's national goals and the cause of World Revolution are identical. But are there any doubts about which would prevail in case they should not always coincide?

The Common Market Expands

Next January first the United Kingdom, Ireland and Denmark will join the European Common Market. This addition will provide new stimulus to a process of economic cooperation that will probably bring together in some kind of association all of the Western European countries in this decade.

The Common Market is the largest trading bloc in the world. As can be seen in Table II, it accounted for 31% of the world's imports in 1970. If the three new member countries are included, the enlarged Common Market accounts for almost 40% of the world's imports.

Western Europe's sustained economic growth and its movement towards trade liberalization have had an impact on Latin America's exports. By 1970 Western Europe accounted for 35% of Latin America's total exports, a higher proportion than that of the United States (30.4%).

These figures help to explain why Latin America has an interest in the economic health of Western Europe and in its movement towards general trade liberalization.

TABLE II: *The Common Market In World Trade 1970*

(Figures in Millions of US Dollars)

	Value of Imports	Percent of World Imports
Total World Imports	293.869	100.0
E.E.C. Member Countries[1]	90.177	30.8
United Kingdom	20.448	7.0
Ireland	1.215	0.4
Denmark	3.436	1.2
United States	46.707	15.8
Latin America	16.130	5.5
Japan	19.310	6.5

[1] Belgium, Netherlands, Luxembourg, France, Italy and West Germany.
Source: IMF, IBRD, Direction of Trade Annual 1966-1970.

The enlarged community will try to agree on a common negotiating position on international trade and monetary reform. Should it succeed, the stage will be set for a new round of trade negotiations within the industrialized world.

The Common Market authorities will also be considering proposals to increase imports from the developing countries, either by assigning proportions of the E.E.C. market for specified products to those countries or by setting growth targets for imports from developing countries. Proposals such as the extension of non-reciprocal tariff references to exports of manufactured goods from less developed countries will probably receive a more sympathetic hearing in Brussels than in Washington. In fact the initiative on preferences for developing country exports will probably have to be taken by the Community, given the strength of protectionist forces in the United States at present.

Latin America should bring to bear all its influence on the common Market for the adoption of generalized preferences for exports of manufacturers from developing countries.

Inter-American Relations in Transition

The winds of change in international relations on a worldwide scale have not by-passed the hemisphere. Both the United States and Latin America are regarding the inter-American system in quite different terms from those that prevailed ten years ago. One of the few items on the inter-American agenda on which there appears to be a consensus is the need for a reappraisal of hemispheric relations.

A major factor (although not the only one) in the change that has taken place in United States policy towards Latin America has been the Vietnam war. From 1964 on, as the magnitude of the U.S. military effort in Southeast Asia increased, preoccupation with developments in the hemisphere diminished. Those crisis situations that did arise (the Panama Canal Zone incidents of 1964, the Dominican Republic in 1965) were managed with a heavy hand, in a style that was supposed to have gone out of fashion since the 1930's. Economic and social matters which had been fundamental components of the Alliance for Progress were relegated to a lower priority, as the war monopolized the attention and the energies of the United States government. The administration which took office in 1969 quietly dropped the expression Alliance for Progress and placed its hemispheric policy in a more modest perspective. Furthermore, its major diplomatic efforts were conditioned to a new world order viewed as an equilibrium between five major powers: The United States, the Soviet Union, Western Europe, China and Japan. Within such a framework it is understandable that the need for a Latin American policy should not appear as a matter of great urgency. The question seems no longer to be what priority should be given to the inter-American system, but rather whether it is relevant.

The following view seems to be representative:

> "Pan-Americanism, at least under U.S. leadership as it was understood by Presidents from Franklin Roosevelt to Lyndon Johnson, is in its death throes, if, indeed, it ever lived. The ties that bind together the nations of North and South America become fewer and weaker; the policies and actions of the countries south of the Rio Grande become increasingly independent of U.S. influence. The vision of two great continents, joined by common liberal values and aspirations as well as by geography, marching hand-in-hand into a better future for all is distorted almost beyond recognition by the events of the last several years."[1]

In the absence of any over-all governmental guidelines with respect to Latin America, the criterion by which the relative warmth of bilateral relations is measured is the attitude towards private foreign investment in each country. The decision on the part of the Nixon Administration to drop any pretense of "special relationship" with Latin America has been criticized by some as a downgrading of the inter-American system. Nevertheless, given the mood and aspirations of Latin America today, an arms-length, businesslike relationship with the United States is not without advantages. A mutual disengagement now may provide the basis for a healthier and more realistic relationship in the future, one that is free from the psychological binds of paternalism or dependence. An inherent part of this mutually agreed upon separation is the fact that each partner acquires a greater degree of freedom to take decisions on the basis of national interest without excessive preoccupation about how they might affect the interests of the other. It is in this light that Latin America should view the decision of August 1971 not to exempt its products from the 10% import surcharge. (Mr. Connally's quaint remark, "We have no friends down there, anyway," should not be interpreted literally.) Likewise, actions on the part of Latin American countries concerning territorial waters or control of their natural resources should be understood as a reflection of domestic priorities.

Simultaneously with the process of disengagement from hemispheric affairs on the part of the United States, there has taken place an acceleration in the pace of change in Latin American societies. Population growth, rapid urbanization, better communications and greater social and political awareness are creating new and pressing demands upon the economies and the institutional frameworks of most of the countries in the region. The impatience with the status-quo has spread to the Church and the military, two sectors that had previously been identified with the traditional social and economic order. The pressure for greater social justice and better income distribution within also extends to those aspects of relations with the outside world which are perceived as containing elements of foreign domination. Such as the case of Chile's desire to control the copper industry, Peru's nationalization of the International Petroleum Company, Mexico's regulations on the transfer of technology or Panama's struggle for national sovereignty over the Canal Zone. Since there are private or public United States interests involved in these and in similar cases, and years will go by before they are satisfactorily resolved, it can be expected that these disputes will affect the tone and the content of the inter-American dialogue for the forseeable future.

An issue that will almost certainly provide material for lively debate within the hemisphere during this decade is the relationship between Latin American governments and the so-called multinational corporations, that is the large firms (mostly owned or controlled by United States capital) doing business on a worldwide scale. The precise nature of the relations between nation states and these modern economic giants is something that has yet to be defined even in the industrialized countries.[2]

Concern over their capacity to influence large and sudden capital movements as well as the fear of U.S. labor leaders that domestic job opportunities may be jeopardized by foreign subsidiaries of North American firms could bring about legislative action attempting to curtail certain aspects of the multinational corporation's activities.

For the purposes of inter-American relations, however, the following points should be kept in mind with respect to the multinational corporations.

It is unlikely that there will be a common Latin American policy on this subject. Treatment of private foreign capital will vary between countries. Even where common ground-rules have been established as in the Andean Group where a uniform code towards foreign capital exists, there are different attitudes in each of the member countries according to their economic and political peculiarities. As a general rule, Latin American countries will refuse to accept the relations with private foreign investors as a proper subject for inter-governmental negotiations. Most Latin American governments insist on separating their political relations with Washington from the activities of United States corporations within their national boundaries. Attempts to establish inter-governmental agreements on the treatment of foreign investment will be resisted by Latin American countries, independently of whether those agreements are of a bilateral or a multilateral nature. In brief, there is a deeply rooted feeling that treatment of foreign investment is a domestic matter which should be dealt with through the national legislative and judiciary process rather than diplomacy.

With few exceptions, Latin American countries will strive for national control over natural resources and strategic sectors of the economy such as electric power and other energy sources, transportation, banking and insurance, telecommunications, the information media, and the principal foreign exchange earners. While the methods of bringing about such national control will differ from country to country the overall trend is unmistakable.

Capital exporting countries, particularly the United States, should not try to oppose this trend. On the contrary they should welcome it and try to facilitate the process by all the means at their disposal. In the long run it can be considered as an investment in good international relations. Once the irritation caused by certain obsolete forms of foreign investment is removed, it is to be expected that Latin American countries can carry on their political relations with the United States in a more conciliatory mood. Furthermore, once the political issue of foreign control of the economy is defused, in all probability Latin American governments will come to pragmatic, mutually convenient arrangements with the multinational corporations for specific projects where technology or access to international markets are important considerations.

In this respect it is useful to bear in mind the case of Colombia, a country that for over decades has enjoyed remarkably cordial relations with the United States. It is not a coincidence, that of the major Latin American countries Colombia is the one where foreign investment (from the United States or any other source) is the least significant. Coffee, the largest export commodity, is totally in Colombian hands. The railroads, electric power and other utilities are in the public sector. Telecommunications were nationalized thirty years ago. The financial system is predominantly owned by nationals, as is manufacturing and commerce. Even in the field of petroleum where there is a sizeable investment by the international companies, there is the countervailing influence of a large and growing state petroleum company. Under these circumstances the authorities can deal with the international business community on a pragmatic basis, without the interference of either xenophobia or inferiority complexes.

At present it is difficult for North Americans to understand the asymmetry that exists in an economic relationship that implies ownership by foreigners of important means of production. The irritation which they experimented in the early nineteenth century because of British investments in the United States is too distant. And the hypothetical case of a foreign group acquiring control of the North American steel industry for example has so far appeared too remote to be credible. Therefore, it is understandable that private and public United States attitudes toward foreign investment should reflect the fact that while foreigners do not typically control important assets in the United States, the reverse situation is part of reality. However, rapidly changing events may put those attitudes to a test in the not too distant future.

It is estimated that by 1980 the member countries of OPEC (Organization of Petroleum Exporting Countries) will obtain additional resources from the sale of petroleum, of the order of sixty billion U.S. dollars. Such a sum will provide these countries with sufficient funds for the most ambitious development programs and still leave a considerable surplus of liquid assets. It is not too farfetched to conceive of a multinational corporation created by one or several of the OPEC countries and endowed with a few billion dollars for the purpose of investment in a safe, dependable industrialized country that can offer growth potential along with an attractive climate for investment, for example, the United States.

With judicious counselling and a certain amount of imagination such a multinational corporation could acquire a controlling interest in attractive and profitable industries, say in the field of computers, jet aircraft, electricity, automobiles, petroleum and gas, radio and television, to name a few. It is interesting to speculate on what the reaction of United States public opinion and government would be in such an eventuality. In fact, there have already been some statements of concern in the United States about such a possibility and its political inacceptability. It has suddenly been realized that decisions affecting the jobs and well-being of United States citizens should not be taken in the Persian Gulf. This realization may be of invaluable help to the developing countries and particularly those of Latin America, as they try to define the proper role for private foreign capital in their economies at the same time as they attempt to maintain normal relations with the United States.

Latin America's New Perspective

The customary warning about Latin America's heterogeneity is in order. The political differences between the major countries in the region are such, that the common ground on international and economic questions is approaching the vanishing point. The differences in size and degree of economic development make generalizations dangerous.

As a rough approximation, however, it is useful to keep in mind that the seven largest countries in Latin America (Argentina, Brazil, Chile, Colombia, Peru, Mexico and Venezuela) account for 84% of the region's population and 90% of its economic output. See Table III.

"The political problem of mankind," – wrote Keynes – "is to combine three things: economic efficiency, social justice and individual liberty."[1] Latin American countries are trying to solve the political problem in a variety of ways. The diversity of the political models being tried out throughout the region is one of the hemisphere's exciting features.

Two models that are being closely followed are those of Chile and Brazil. Chile is experimenting with a democratic transition to

TABLE III: *The Seven Largest Latin American Countries – 1970*

	Population (millions)	GNP (US$ millions at 1960 prices)
Argentina	24.4	22.718
Brazil	93.2	32.646
Chile	9.8	5.770
Colombia	22.2	7.861
Mexico	50.7	31.559
Peru	13.6	4.897
Venezuela	10.8	7.163
Sub-total	224.7	112.614
Total Latin America	266.8	124.487
The seven as % of total	84%	90%

Source: OAS Secretariat, UNECLA and Latin American Demographic Center (CELADE)

socialism. President Allende is attempting to redistribute income and change the social structure rapidly, even if the economic cost is high. The Brazilian military government has given top priority to economic growth in an attempt to transform Brazil into a world power before the end of the century.

Twelve countries, comprising over 60% of Latin America's population, are ruled by military governments. The Peruvian military have departed from the traditional pattern with a model that combines nationalism and social reform and is situated ideologically in between the Brazilian and the Chilean regimes. The Ecuadorean and Panamanian military regimes could probably be also classified as reform-oriented rather than traditional. Colombia, Costa Rica, the Dominican Republic, Mexico, Venezuela and Uruguay have civilian, elected governments, operating within market economies.

Economic nationalism appears to be on the rise individually as well as collectively. An increased self-confidence on the part of Latin America will mean greater assertiveness in dealing with the developed countries in general. Latin American countries can be expected to bargain vigorously on matters such as access to markets, monetary reform, commodity agreements, control over natural resources and direct foreign investment.

Greater self-awareness has also meant that increasing emphasis is being placed on domestic problems. The population explosion, rapid urbanization, unemployment and the inequitable distribution of income are creating severe strains on the region's social fabric. A formidable political and economic effort will be necessary to provide the jobs, housing, public utilities, nutrition, education and health services required to insure minimum standards of economic and social welfare for the people of Latin America. The leadership, the resources and the inspiration required to solve these problems can only come from within the region. The contribution of the outside world towards an effort of this kind will necessarily be marginal.

Assigning priority to internal problems need not imply withdrawal from the outside world. Latin America is becoming integrated into the international economy. A multilateral, liberalized pattern of world trade provides an opportunity to expand and diversify the region's exports. As can be seen in Table IV Latin America's exports increased from US$11.1 billion to US$14.3 billion between 1966 and 1970. Although exports to the United States increased, exports to Western Europe and Japan increased at a higher rate.

Cooperation between the countries of the region, and between Latin America and other developing regions will contribute to improve the bargaining position of the developing countries with respect to the industrialized world. The Organization of Petroleum Exporting Countries, which Venezuela contributed to create, has given ample proof of the benefits to be gained from working together.

Summary and Conclusions

The bi-polar nature of the world has changed. China and Japan have joined the United States and the Soviet Union as major

TABLE IV: *Latin America–Destination of Exports by Geographical Areas*

	1966		1970	
	US$ millions	Per Cent	US$ millions	Per Cent
United States	3.803.8	34.1	4.353.8	30.4
Canada	287.7	2.6	463.2	3.2
Latin America	1.175.5	10.6	1.665.4	11.6
Sub-total	5.269.0	47.3	6.482.4	45.3
Industrial Europe	3.391.8	30.4	4.399.5	30.8
Other Europe	395.8	3.6	609.1	4.3
Sub-total	3.787.6	34.0	5.008.6	35.0
Japan	491.8	4.4	962.1	6.7
Socialist Countries	405.4	3.6	321.0	2.2
Rest of the World	1.196.1	10.7	1.525.8	10.7
Sub-total	2.093.3	18.7	2.808.9	19.6
TOTAL	11.149.9	100.0	14.299.9	100.0

Source: IMF, IBRD. Director of Trade. Annual 1966-1970

powers. The European Common Market is predominant in international trade. Its role will be decisive in shaping world commercial and monetary policy. China's role in the world economy is still modest. Nevertheless she will have a decisive political influence in Asia. Japan has emerged as a major industrial and trading nation exerting considerable economic influence over the non-socialist countries of Asia.

Latin America's traditional relationship with the United States is changing by mutual consent. Although inter-American economic ties continue to develop, both sides are moving towards a less intimate political relationship.

The relationships between the big powers are relevant for Latin America to the extent that world peace and reasonable stability in the international economy are maintained.

Given these external conditions, Latin America can be expected to concentrate its efforts on the solution of its pressing economic and social problems through a variety of models in accordance with each country's cultural and political values.

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[1] From an article by Lawrence E. Harrison entitled, "Waking from the Pan-American Dream," published in *Foreign Policy*, Number 5, Winter 1971-1972. Although Mr. Harrison explains that the views expressed in the article are his alone, they constitute a candid and coherent summary of an attitude towards Latin America, that is not inconsistent with recent governmental behavior towards the region.

[2] For a provocative and comprehensive discussion of the economic and political implications of the growth of the MNC's see Raymond Vernon's *Sovereignty at Bay*, Basic Books, New York, 1971.

The Multinational Corporation: Paths, Pitfalls and Politics Ahead

John Diebold

The multinational corporation not only promises the most efficient use of world resources, but as an institution, it poses the greatest challenge to the power of a nation-state since the temporal position of the Roman Church began its decline in the 15th century.

George Ball

During the 1970s and 1980s the multinational corporation will likely become the major engine of development for both the less developed countries and those countries which we now think of as developed but which have not yet attained American standards of living.

Herman Kahn

A multinational corporation is an American-registered company manufacturing its products where labor is cheapest, and channelling its profits to another country where taxation is lowest or preferably non-existent.

England's Sir Arnold Hall

We are lending money to the Americans to enable them to buy us.

France's J–J Servan-Schreiber

The most important international commercial phenomenon of the last two decades has been the burgeoning of private foreign investment, especially in its characteristic form, the multinational

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corporation. I suspect that the course of international economic policy in the next two decades – and especially for our three areas of South America, North America and Europe – will be less determined by what is said at international conferences than by the gut reactions of people and governments back home, particularly in the developing world, to this growing force in their midst.

The multinational corporation (MNC) is already the most involving of all the international economic relationships which are binding nations more closely together, while complicating their political relationships and compromising their sovereignty. It is a phenomenon with profound consequences for the kind of world we will be living in ten or thirty years from now, yet it has no institutions to guide its development or to set ground rules for its operation, and no accepted machinery for reconciling conflicts of interest which it engenders. It is subject to the often conflicting laws of both the nation in which it is based and the nation in which it does business, yet it is not fully in the control of either one. It vastly complicates the problem of economic decision-making by governments. Nations cannot even agree whether the multinational corporation is a modern form of extraterritoriality, basically exploitative, or whether it is a benign agency for the redistribution of wealth and the diffusion of technology throughout the world. A great deal is going to depend on which of these two views eventually becomes the majority one.

A paper like this can be of use to a conference like this only if the author sticks out his neck and sets down his own guesses, so that the other participants can discuss how wrong they think the guesses are. I begin with relations between multinational corporations in western Europe and North America, although, as will soon emerge, I suspect that these relations are going to become much less important than those in the developing south of the world.

Americo-European-Japanese Treaty

As between western Europe and North America I do not think that the challenge from multinational corporation – "le defi American" or any counter "defi Europeen" – is going to become a thornier issue in the next few years. There will continue to be misunderstandings about mergers: not just transatlantic ones, but also intro-European ones – particularly between companies in Latin European countries (where tax rates are negotiable) and non-Latin countries (where they are statutory). But the European Commission at Brussels will move gradually towards harmonization of company law, tax law, and monopoly regulation; the United States will probably slowly adopt these European innovations that work (like value-added tax), while the Europeans modify, towards the American pattern, those that don't.

Thus it should increasingly be realized that between the European community and America – and, perhaps later, between them and Japan – a body of common interest exists. A next step might be to reach agreement among the European and North American governments on a set of restraints with regard to their multinational corporations. Among the friendly industrial nations of the non-Community world, there is no reason why governments should intervene on behalf of their multinational corporations; they might even gradually move towards making equal treatment a fact instead of a fiction. This will more easily come in the form of equal treatment among foreign corporations and, far more reluctantly, in the form of equal treatment for all. By contrast, at present, almost all nations favor their own domestic firms, particularly in government purchasing.

As momentum built up, and as European and North American governments and businesses became reassured that a measure of equalization and a set of ground rules were in the interest of all, more ambitious institutional innovations might become possible – such as international courts of law and regulatory agencies with independent powers. Eventually, we might see the emergence of a body of international law applying specifically to the multinational corporation, and the creation of genuinely international companies free of national ties and registered with an international agency having clearly defined powers, though I suspect that for a long time even these companies would still look Dutch or German or American! I think that the first steps in this direction will be taken as between Europe, North America and

Japan during the 1970s, although I am quite uncertain of the pace at which they will proceed. But the pace of events between them and the developing countries to the south – including Latin America – seems likely to be much more important.

Therefore I have donated the bulk of this paper to the relationship between the multinational corporation and the developing countries, especially in Latin America. It is here that we will see the most important developments of the next decade. It is here that we face the greatest potential promise and danger. And it is here that we most need fresh thinking.

Manufacturing Goes South

Most of the argument in this paper is based on three main guesses:

1 During the next two decades there will be a large transfer of manufacturing industry from the three rich industrial areas of the world (North America, North-west Europe, Japan) to the poorer areas to the south. In particular, this transfer will include manufactures of both finished goods and components for export back to today's richer countries. Between now and 1993 the rich one-third of the world will increasingly find that both economic and social logic are impelling it to move into the post-manufacturing age, and to shift more and more manufacturing output down to the poor south of the world.

2 The multinational corporation will naturally be the mechanism initially most favored by corporations in the rich countries for this southward transfer of manufacturing. Often this will mean the wholly-owned American (or European or Japanese) subsidiary. There are some advantages as well as disadvantages for poorer countries in this form of transfer, and later in this paper we will be frankly discussing them. But the key strategy for a successful developing country should be to put itself into a position where it can choose. My guess for the next two decades is that, if a developing country has a thriving domestic business ethos and domestic business sector, then it is likely that the multinational corporations of the world will beat a path to its door, asking to be allowed in. It will then be up to the developing

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country to choose what terms to allow them. The development policy that will *not* succeed will be one that stops the growth of a domestic business ethos, and that then erects barriers against the participation of foreign firms that, as a result of these factors, will not want to come in anyway.

3 I agree that in some cases host governments in the poor south of the world will inhibit economic development, either by mistake or because they do not want it. In many developing countries, the class struggle today is really between the "new men of government" and the "new men of business" (both domestic and foreign.) These "new men of government" may win the struggle in some countries, either because they have the military on their side, or because the masses can be won to support them by a mixture of economic apathy and emotional romanticism (fostered by nationalism, anti-colonialism, anti-Americanism, anti-capitalism, etc.) But while this scenario is convincing as a sketch of what may happen in many of today's poorer countries for some of the time, it is not convincing as a sketch of what will happen in all of them for all of the time. At least some of today's poorer countries are likely to climb eagerly onto the development bandwagon, and there will then be an incentive to follow them. Those leading the climb will be the "new men of business" in the developing countries. Sometimes (as in Mexico and Japan) the policy they will carry through will be one that will restrict the importing of technology through the particular medium of MNCs; sometimes (as in Brazil and Singapore) they will be self-confidently liberal in importing technology through the MNCs. My belief is that both policies will sometimes work in the particularly favorable circumstances of the years ahead, because the urge on the part of the rich countries to transfer manufacturing activity southwards – to areas like Latin America – will often be strong.

Let me now explain why.

Gathering Pace

Business generated by multinational enterprises outside their home countries already amounts to about $350 billion worth of goods and services a year (three-fifths of it by U.S. companies).

This is one-eighth of the gross product of the non-Communist world. The proportion is increasing rapidly, because the production of multinational corporations seems to be expanding at about 10% a year. On a crude extrapolation of recent trends, one could expect multinational corporations to be responsible for one-fourth of the production of the non-communist world by the early 1980s.

If there is not a revolt against receiving multinationals by the host countries, there is a strong probability that this last figure will prove to be an under-estimate. Trends in the rich countries suggest that the growth of multinational business activity in some form is likely to be faster in the near future than in the immediate past, partly because (a) American companies have acquired the techniques of multinationalism; but largely because (b) western Europe and Japan are very likely in the period 1973-93 to follow American's 1950-70 trend, and start "exporting companies and knowhow, much more than goods, to the outside world."

The essence of argument (a) is that there is a certain technique in "going multinational": namely, acquiring a degree of expertise in foreign tax laws, employment customs, written or unwritten business regulations, and social and political habits. That technique was pioneered in the 1950s and 1960s by the giants, and is to some extent now almost available in packaged form (especially for companies operating out of a U.S. background) as well as being made easier by the presence on the spot abroad of U.S. chambers of commerce, U.S. banks, and the like. Smaller U.S. firms are now well placed to take advantage of this development, especially in countries where U.S. multinational corporations have already spread like wildfire.

The key statistic for arguement (b) is that, at present, overseas production by European and Japanese companies is less the annual value of their exports. This was true of America until the 1950s, but now production by U.S. companies abroad exceeds U.S. exports by five to one. The U.S. multinationals' production abroad has therefore become, quite suddenly, by far the most important form of American involvement in the world economy.

During the period 1973-93, it seems likely that the same will become true of the EEC countries and Japan, and that their investment and export of knowhow – like that of the United States – will go especially to the poorer countries.

Some people deny this trend by pointing out how much U.S. investment in the period 1950-70 went to mature, white, industrialized countries (such as western Europe, Canada and Australia). They say that American production knowhow could be transferred fairly easily to this sort of country with slightly lower wage rates, but that it will be more difficult for American and European companies to shift manufacturing jobs to countries where people have visibly lower living standards than themselves. This argument ignores the extent to which northern Europeans have already done precisely this, by moving workers instead of plants.

During the 1950s and 1960s, northern Europe did not follow as strongly the American course of exporting manufacturing plants overseas, but instead imported workers in large quantities from the south. In Britain, the imported workers came first from the West Indies and then from India and Pakistan; in northern continental Europe from poorer southern continental Europe (Italy, Spain, Greece, Yugoslavia, and Turkey) and then north Africa. At first, it was supposed that these workers would do mainly the "dirty" or "heavy" or unpopular service-industry jobs. But the experience of the Renault motor works in Paris – which is one of the few big automobile plants in a national capital – has shown that sophisticated Parisians do not any longer want to work even in highly-paid manufacturing jobs like those in automobile production, which only fifteen years ago were regarded as the most envied and plum jobs for most Europeans. More than half of Renault's workers today were born outside France.

Immigration of workers into northern Europe has now become unpopular, because it raises social problems; and the Europeans in the next two decades are highly likely to move their plants south to the workers instead. By the 1980s, any big new European automobile-producing plant will probably be located either in

Spain or in North Africa.

Until the last few years Japan's industry has been based on high-wage big firms, and on low-wage small firms from which the big firms have bought their components. The "lifetime employment" system in Japan meant that the small firms held on to their cheap labor for a long time. The big Japanese firms thus became very skilled at breaking down their production processes into systems where component work could be sub-contracted to small firms, which made these components in ways that were efficient but did not require the use of much highly-skilled or well-educated craft labor. Now, however, young Japanese will not go into low-wage small firms, and wage levels are levelling up. The Japanese, who certainly do not intend to allow mass immigration of unskilled foreign workers, are therefore likely to set up these "small firm" industries in some profusion in parts of Asia with cheaper labor. They have already begun to do so. North American and west European industrialists might do well to study (and imitate) some of the ways in which the Japanese thereby subdivide their production.

Developing countries should also study Japanese experience. Big Japanese firms are used to dealing with large numbers of small Japanese sub-contractors, which at least regard themselves as independent firms. Some typical relationships between big Japanese firms and small Japanese sub-contractors are not in the sub-contractors' interests (e.g. credit terms, monopoly dealing, etc.), but others provide an excellent framework within which small independent firms can grow. Governments of developing countries would be well-advised to study the terms under which they would like locally-owned firms in their own countries to develop along this potentially profitable road as sub-contractors to big Japanese companies. These governments should suggest the sorts of sub-contract arrangements into which local firms should and should not enter. And they should then encourage maximum competition to get the sorts of contract which seem desirable. This effort might sometimes be aided by changes in local law (including the law of bankruptcy and debt collection), local credit facilities, local import and export regulations, etc. Many developing countries might find it a very worthwhile investment to study the question: "What are the prospects for independent local firms becoming sub-contractors to big Japanese industry, and what steps should this government take to encourage desirable participation in this?"

Should They Want Multinationals?

The clutch of recommendations above assumes that developing countries, like those of Latin America, should want to see the spread of multinational corporations in their lands. There are some strong arguments on the other side. I would draw up the present lines of debate in the following way. The arguments that I have underlined are those that I take most seriously on either side.

The arguments of the critics need to be taken as seriously as the arguments of the proponents. But it will be convenient to discuss the latter first, concentrating on those underlined in Table 1.

Table 1: The Debate Over The Multinational Corporation (MNC)

1 **Pro**: By focusing on *economic rationality*, the MNC represents the interests of all against the parochial interests of separate nations. It is the most effective available counter to rampant nationalism and a concept of sovereignty made obsolescent by the intensity of our interdependence. Its only political weapon is that it can remove its benefits from developing countries that are politically unreliable or confiscatorily anti-business; and this is a political and economic incentive towards responsibility that is in the poor countries' own interests.

Con: The MNC removes a significant part of the national economy from responsible political control, without escaping improper political influence, including influence from the governments of the MNC's home countries. The MNC is an invasion of sovereignty and frustrates national economic policies. It fragments industries, causing proliferation without hope of consolidation.

2 **Pro**: The MNC is the best available mechanism for training people in countries for modern managerial skills.

Con: *It does not train people in entrepreneurial skills*, which is what a developing country most needs.

3 Pro: No more effective instrument has been found for the diffusion of technology.

Con: The transfer of technology is often minimized because (a) R&D is generally carried out by the parent company; (b) the training of nationals of the host country for R&D posts is often neglected; (c) the technology itself is often closely held. The phenomenal growth of Japan was made possible not by the MNC but by licensing agreements.

4 Pro: The MNC is the most promising instrument for the transfer of capital to the developing world and its role will be crucial in overcoming the income gap which endangers the peace of the world.

Con: The cost of the capital brought by the MNC is far higher than the host government would be charged as a direct borrower in capital markets. The MNC often invests relatively little of its own capital, and manages to buy up foreign enterprises with local capital. The profits of the MNC are exorbitantly high, and too low a proportion of them are reinvested.

5 Pro: The MNC's integrated and rationalized operations in many lands make it *incomparably efficient*. It has proven to be the only really effective instrument for economic development.

Con: The rationalization of production is sometimes a *tax dodge*. The MNC does distort development programs by channeling its reported profits to countries where taxation is lowest, by manipulating charges for services and transactions on behalf of particular affiliates so as to disguise real earnings.

6 Pro: The MNC enhances competition and breaks local monopolies. To the consumer, it provides a better product at a lower cost. To the host country it can provide a *new export industry for tomorrow, and this will become especially important in the future.*

Con: Its sheer size and scope represents unfair competition to local enterprises. It tends to pre-empt the fast-growing, advanced-technology industries where profits are highest, ignoring older, more competitive fields. Often the subsidiary does not export to its country of origin, in order to avoid competing with its parent company and causing trouble with its labor force at home.

7 Pro: Management of the MNC is becoming increasingly flexible, sensitive to local customs, and genuinely international in fact and in spirit.

Con: Since the strength of the MNC lies in integrated operations and centralized control, the interests of the parent company must remain dominant and the MNC cannot ever become genuinely international. Often, the MNC has resisted genuine internationalization by declining (a) to put foreigners into management and (b) to make shares of its affiliates available to nationals of the host country.

8 **Pro:** The MNC is an agent of change which is altering value systems, social attitudes and behavior patterns in ways which will ultimately reduce barriers to communications between peoples and establish the basis for a stable world order. Opposition to the MNC arises essentially from the fact that the process is inevitably disruptive and that all change is resented.

Con: Far from breaking down barriers between peoples, the MNC aggravates tensions and stimulates nationalism. Moreover, there is every indication that *these tendencies will intensify in years ahead.*

Tomorrow's Exporters

The main advantages of multinational companies to developing countries are tied up with arguments of economic rationality, efficiency, and the growing importance of the companies as exporters. I believe that this last point is going to become the crucial one for Latin America. All experience has shown that it is wise to try from the beginning to direct industrial development in Latin America in ways whereby the new industries have incentives to keep down inflation. Export-oriented industries have such incentives, because cost increases prevent the selling of more exports. By contrast, development on the basis of attempted import-substitution is much more likely to breed inflation.

Unfortunately, attempted import-substitution was the mainspring behind most development programs in poorer countries during the 1950's and 1960's. As Professor Raymond Vernon put it in his Harvard study on multinational corporations, "Sovereignty at Bay":

> During World War II, import substitution in Latin America and Asia was a necessity; after World War II, it was turned into a virtue. And as Africa during the 1950's emerged from her period of colonialism, her countries were quick to adopt similar policies. As a result, most countries in the less-developed group systemati-

cally scanned their lists of imports, searching for products that might be manufactured locally. Most instituted procedures by which local businessmen could bring such opportunities to the attention of the appropriate ministries. Practically all the less-developed countries were prepared to prohibit the importation of a product as soon as the obstacles to local production no longer seemed utterly insurmountable.

It was this sort of development that fostered inflation rates of 50 per cent a year and more. The break-out towards inflation-countering, export-oriented production came largely with the multinationals. To quote Raymond Vernon's study again:

The capacity to use the less-developed countries as areas of production for export appears to have been intimately related to the multinational character of the exporters. Without multinational links, the subsidiaries probably would not have increased their exports on anything like the same scale. Illustrative of that tie is the fact that although US-controlled manufacturing subsidies accounted for 41 per cent of Latin America's manufactured goods exports in 1966, they were responsible for less than 10 per cent of Latin America's gross manufacturing value added in that year. Even more to the point was the type of goods being exported. These were the products of industries in which barriers to entry were relatively high and in which successful marketing required a relatively advanced degree of sophistication and control. As a result, the marketing process itself generally required the services of affiliates as well as the supervision of the parent.

Critics will point out that, as I have said in the table, "often the subsidiary does not export to its country or origin, in order to avoid competing with the parent company and causing trouble with the labor force at home." But my guess is that this factor will be progressively mitigated by three factors: (a) the fact that consumer tastes are becoming more and more international; (b) the great growth of new products in manufacturing schedules; (c) the educational and training revolution which is going to make the training of labor in the poor countries a much quicker and more scientific process.

On point (a), I believe that most businessmen are underestimating how fast the trend towards multinationalism of shopping is going to go. A recent Delphi poll among leading experts on data processing in the U.S. found majority support for the view that, in the 1980's, multinational information systems will be available to permit catalog shopping from computer terminals across national boundaries. Once that sort of facility is available, it will become very difficult for big companies to decide to make their transportable products in any but the cheapest places. And the poorer countries will have a big advantage as exporters of manufacturing goods because of their relatively cheap labor, including an increasing number of skilled artisans in manufacturing, at a cost and in a quantity that is increasingly not going to be available in the United States, northern Europe and Japan.

On point (b), above, the biggest expansion in developing countries' manufacturing for export during the period 1972-92 may well take place in very new products, including products that have not yet been invented. This follows the trend of the last 25 years. In the mid-1940's, few people would have forecast that, by the mid-1960's, so many television sets sold in the U.S. under American brand names would in fact be manufactured in countries of Southeast and East Asia, such as Taiwan. Few people would have forecast that, during this period, television sets would have swollen from not being available at all to over 80 per cent household coverage in so many developed countries of the world. They also could not have forecast this development for transistor radios, because in 1945 transistor radios had not yet been invented.

The reasons why new products, like electronics, are especially successful exports for poorer countries spring partly from the fact that the knowhow for producing them tends to be codified in a form that can be transmitted to inexperienced labor forces (it has to be, because nobody is experienced in making something entirely new). But the reasons spring chiefly from the absence of pressure groups in the rich countries. These newest industries, like electronics (ranging up to such things as integrated circuits), developed so quickly that production in them had taken boat to Taiwan almost before U.S. labor unions and business lobbies back home were sufficiently organized to realize that such industries existed!

A greatly expanding proportion of world manufacturing production during the period 1972-92 will consist of entirely new products. When the products are not entirely new, manufacturers will increasingly pretend that they are.

To this observation should be added the great spur to the "southward transfer of manufacturing," point (c) above — which may spring from the fact that mankind is on the edge of a breakthrough in the whole concept of its learning and information processes. Business will probably adapt well to the new educational technology during this training revolution - better indeed than many schools and universities – because business is generally free from prejudice against the application of machines to human endeavour; it has no educational bureaucracy; and its focus is more on results than on defending institutional methods.

The training and information revolution is likely to include:

- A huge expansion in computer-based education. The computer will become a means of discovering each student's learning pattern and thus make education (and training) truly individualized. Set in a heuristic configuration, drawing from recorded responses by other students with similar difficulties, the computer will by itself check out alternative ways of overcoming or circumventing the students' difficulties, vastly increasing the efficiency of the energy the student applies to his education.
- In step with this codification of the learning process, multinational computerized data banks will become available that will aid decision makers in choosing where to locate production facilities (e.g., manufacturing plants) all around the world, with an eye on the trainability of labor as well as on other advantages. Thus the head offices of multinational corporations will be helped to plan and control production processes worldwide; to multinationalize their handling of logistic functions (such as purchasing both raw materials, and services, tools, components and equipment); to plan and control the marketability of different countries' products in third countries; to handle all credit transactions (by the 1980's most foreign exchange transactions will be carried out by multinational computer systems which link together, on-line, both large and small international

banks), and to codify worldwide research. We are going to move towards a world in which multinational computer systems are used to organize permanent ongoing international conferences in which research into, and discovery of, new ideas are stored immediately in data banks accessible to on-line locations in all countries where patent agreements are honored.

- We are also moving into a world in which the price of telecommunications will no longer depend on distance. Once the world has put enough satellites into space, and installed the equipment, the marginal cost of making a picture telephone call to China should be no more than the cost of telephoning the office next door; it will not put any extra strain on manpower or equipment.

Norman Macrae, of *The Economist,* has suggested where these trends might lead for business organization by the beginning of the 21st century, when three-fifths of today's inhabitants of the world should still be alive:

> As a prototype for the most successful sort of firm in thirty or forty years' time, it may be most sensible to visualize small groups of organisers or systems designers, all living in their own comfortable homes in pleasant parts of the world and communicating with others in the group (and with the systems designers) by picturephone: arranging for the telecommunication of the latest best computerised learning programme on how to make a better mousetrap (or, more probably, how to make the next-successor-but-five to integrated circuits) rooftop to rooftop to about 2,000 quickly trainable, even if only newly literate, workers assembled before their two-way-teaching-in computer terminals by some just tolerably efficient organising subcontractor (also taught by long-distance telecommunicated computer lessons) in West Africa or Pakistan.

The logical and eventual development of this possibility would be the end of nationality and national governments as we know them. Less and less would people live out their lives where they were born; more and more would they live where they choose. Those people working in systems-designing and knowledge-producing jobs would merely have to live "hooked into" what would become easily transportable two-way terminals to the big computer networks. Those people working in goods-producing and goods-transporting jobs would have to take on-site jobs for their working years; but probably the working year for these people would become much shorter, and holidays (including sabbatical years) much longer and more frequent.

However, this is looking fairly far forward towards what some people will not regard as a world Utopia. We must now return to more immediate problems of how the developing countries may react as, and if, the southward transfer of manufacturing gathers pace.

Objections to Multinationals

I suggest that the three most valid objections to multinational corporations in developing countries, as underlined in Table I, are (a) they do not encourage local inhabitants in entrepreneurial (as distinct from operative and executive) skills; (b) they often fail to carry as large a tax burden as they might; and (c) MNC's can aggravate tensions and stimulate nationalism, with every indication that these tendencies will intensify in years ahead.

On point (a), I suspect that there is an easy rule of thumb. If a country is managing to set a spark of real entrepreneurial fire alight among its own people, as in Japan and Mexico, then there probably will be a sufficient inflow of licensing agreements, proposals of joint ventures, etc., to bring about the southward transfer of technology, on terms acceptable to local people and without letting the MNC's dictate their own terms. But I suspect that the remaining poor countries of the world will, by the end of this century, include a sad number which have kept out the operations of multinational corporations on the grounds that they think that they have sufficient local entrepreneurial talent, but which have found no support in the world market for their view.

On point (b), I suspect that a lot of even the biggest multinational corporations may soon run into a blazing row. Intra-company transfers are used to make it appear that profits do not arise in high-tax countries, but rather mainly in low-tax ones. It is not sensible to say that poor countries should respond to this situation by all of them giving very generous tax concessions to multinational corporations, because this would be a beggar-my-neighbor policy among them; and some are very poor beggars already. I would be in favor of poor countries (1) banding together in a tax convention not to give competing tax concessions to multinational corporations (although they should be sensible and not make the standard tax rates exorbitant either); and (2) employing some commission or international referee to report when unreasonable intra-company transfers to dodge taxes have been made.

It is point (c) – the aggravation of tensions and nationalism — that is the most difficult. In confronting it we do not handle easy and computable things like market research reports and tax assessments, but rather difficult things like the emotions of free men.

Probably the best idea for tactful operation by multinationals has come from Professor Howard Perlmutter, who classified them as ethnocentric, polycentric or geocentric. But he sees these terms not as being permanently descriptive of particular companies, but rather quite often as phases through which a single company may pass. He points out that to be genuinely international is a state of mind, and that many multinational corporations, with all the normal criteria for fitting this description, are extremely ethnocentric. He tabulates the characteristics of his three types of multinational corporations as shown in Table 2.

Clearly, it seems desirable to move towards the right in this spectrum. The trouble is that this diluted solution always sounds easy to advocate, but will generally be monstrously difficult to carry out.

Table 2: *Three Types of Headquarters Orientation Toward Subsidiaries in an International Enterprise**

Organization Design	Ethnocentric
Complexity of organization	Complex in home country, simple in subsidiaries
Authority; decision making	High in headquarters
Evaluation and control	Home standards applied for persons and performance
Rewards and punishments; incentives	High in headquarters low in subsidiaries
Communication; information flow	High volume to subsidiaries orders, commands, advice
Identification	Nationality of owner
Perpetuation (recruiting, staffing, development)	Recruit and develop people of home country for key positions everywhere in the world

*Columbia Journal of World Business – Jan.-Feb. 1969, p. 12

Polycentric	Geocentric
Varied and independent	Increasingly complex and interdependent
Relatively low in headquarters	Aim for collaborative approach between headquarters and subsidiaries
Determined locally	Find standards which are universal and local
Wide variation; can be high or low rewards for subsidiary performance	International and local executives rewarded for reaching local and worldwide objectives
Little to and from headquarters. Little between subsidiaries	Both ways and between subsidiaries. Heads of subsidiaries part of management team.
Nationality of host country	Truly international company but identifying with national interests
Develop people of local nationality for key positions in their own country	Develop best men everywhere in the world for key positions everywhere in the world.

C. P. Kindleberger has argued that "the nation state is just about through as an economic unit." This view is naturally not welcome in Africa and Asia, at just the moment when countries there have emerged from the colonial link and become independent nation states for the first time. The leading men in those countries have reached the top by sometimes dangerous political endeavor, and they understandably do not like to be told that the eminence they have attained is pretty pointless anyway. This is one of the reasons for an angry socialist ideology in some of these countries, and in some parts of Latin America. It is one reason why the governments of some developing countries, after deciding that the "time is ripe" to set up some domestic industry (often on very unscientific evidence), then try to raise capital and other resources domestically and set up an indigenous plant – perhaps resorting to some "buying-in" of technology and management ideas from abroad on a contract basis. The danger is that they may then purchase the wrong type of production knowhow and management from abroad, getting only second-class inputs.

Nevertheless, this feeling of nationalism has to be lived with. The conclusions and recommendations to this paper therefore begin with recommendations for developing countries themselves; and then for U.S. and European multinational corporations. I have formulated these and other recommendations elsewhere, but will be very interested to hear the conference's views on them.

The two most important determinants of events in this field will be:

1 What governments of the LDC's try to do; and

2 How businessmen react.

I believe that LDC governments can improve their position – to get more out of the MNC's, if you will – in a way with which businessmen can come to terms. That at least is the promise. It is to that end that I have tried to formulate my recommendations.

Recommendations for Developing Countries

I would like to begin with recommendations for the governments of developing Latin American countries. Many American businessmen will disagree with these, but I think that they are realistic.

1 Gear policy to the assumption that a much export-oriented manufacturing production will be switched in the period 1973-93 to the poor south of the world, especially to countries where the domestic tone of government is not anti-business (with the attitude to local business often being more important even than that to multinational corporations).

2 Examine and spur the increasing possibilities for small independent firms to become sub-contractors to big foreign manufacturers (with a special eye on the great opportunities and particular problems involved in being sub-contractors to big Japanese industry). Test whether this "sub-contracting revolution" can be aided by changes in local import/export regulations, credit arrangements, business law, and government handling of foreign contracts.

Recognize, though, that simply to require local procurement runs the great risk of encouraging high cost production among sub-contractors. Ways should be found to insure that local procurement requirements do not become a burden on the whole enterprise in its ability to export competitively.

3 Do everything possible to import education and training by telecommunicated, computer-assisted, visual-aid-assisted means. It may be worth buying these programs competitively from multinational service corporations; giving performance contracts to profit-making as well as to non-profit-making bodies that will provide pioneer educational experiments in particular areas; certainly buying course-broadcasting via satellites, from the great universities of the world; and hurrying forward the day when worldwide involvement will be possible in particular educational programs. I also believe that nutrition is a field in which it ought to be possible to hire from abroad the services of a multinational service-corporation of a new type. The multinational corporation ought to be a specially useful instrument in the struggle to overcome malnutrition, because it combines almost all the

elements needed in the search for solutions: a capacity for large-scale R & D; access to the most advanced technologies; experience in, and knowledge of, other countries and cultures; and production and marketing knowhow. To improve nutrition means primarily finding ways either to raise the protein content of food that is grown or to add to it in processing. Both entail dealing with age-old tastes and preferences. It may involve developing tastes for a vegetable having a texture with which the individual is unfamiliar, instead of casava, which provides more bulk per square foot of planted ground, but is almost without nutrition. Or it may involve persuading a woman to alter her cooking habits and the eating habits of her family. All this requires local partners for the MNC of exceptional awareness and imagination. It would be a very good thing to find out who has the awareness and imagination by setting competitive ventures afoot. The developed countries, including most especially the United States, have been very bad at providing incentives to do socially useful things which government has proved incapable of doing. I believe that one of the great challenges before the developing world is to succeed in this field where the developed world has largely failed. Starting from a cleaner sheet, without either existing private or bureaucratic interests already in place, some developing countries might win a great future for themselves by experiments in these fields.

4 Recognize that investment and production decisions will increasingly be taken on the basis of information retrieved from giant multinational and computerized data banks. Take advantage of this, and gear your policies rather deliberately in a way that will not unnecessarily make all these data banks list you as a bad risk country to invest in.

5 Recognize that multinational operation, rather than joint ventures, may be better initially for export-oriented industries (including some extractive industries), and large-scale advanced technology industries. But these multinational corporations should be required to put out more and more of their subsidiary functions for competitive local tender.

6 Recognize that joint ventures can be a very good way of importing technological knowhow if the developing country has a large enough local business infrastructure to have several *competing* joint ventures in the industry concerned. But if your developing country cannot thus set up competing joint ventures, then it may sometimes be better to allow an ordinary foreign multinational corporation to enter on generous but non-monopolistic terms (because another foreign multinational might then come and compete with it), or else try to import foreign technology on *competitive* (i.e., open to tender) fee-paying or contractual terms.

7 Do not allow protection for the home market of more than, say, 30 per cent of domestic value added.

8 Try to ensure that as many local industries as possible (including especially those with multinational participation) become capable of exporting competitively. Even industries whose main purpose is to substitute for imports should not receive very high protection once they are established.

9 Do not force – or even encourage – MNCs to pay wages above the local average, because this will lose you your main international competitive advantage. Try to impose proper taxes on the MNC instead, while allowing it the advantage of cheap local labor. Also, use the taxes to improve the non-wage standard of living of your people, as through the development of infrastructure.

10 Set up a joint arbitrating mechanism to insure that taxes are not being dodged through the manipulation of charges for services and transactions by the head office of the multinational back in America or Europe on behalf of its local subsidiary. An arbitrating mechanism will shame the multinational out of trying the most obvious dodges that do exist, while rigorous unilateral searching by your country's own tax inspectors will sometimes be unfair, and often be expected to be.

Recommendations for American and European Multinationals

American and European multinational corporations have no effective means of speaking with one voice, even if broad consensus could be achieved. But pending broad international agreement, they might consider the following ground rules for operating in Latin American countries.

1 Follow a positive policy of hiring out as much work as possible to local sub-contractors, repair shops, service contractors, etc.

2 Refrain from buying out local companies in traditional fields dominated by local investors.

3 Avoid special concessions not available to local businessmen.

4 Acknowledge an obligation to give local nationals a sense of participation by (a) training and employing nationals in top management; and (b) conducting some R & D locally whenever feasible.

5 Recognize that the host country benefits more from taxes which help infrastructure development than wage inflation for your favored labor forces – even though one of the appeals of the MNCs is their high productivity.

6 Refrain from avoiding tax by manipulating charges for services and transactions on behalf of a particular affiliate so as to disguise real earnings.

My concentration in this paper has been at the expense of working over once again the more familiar ground of relations between the MNC's and the developed countries. Aside from the fact that there is no shortage of literature on this subject, I really do believe that the interplay between the MNC's of the developed north and the countries of the southern half of our world deserve the time and attention of this Conference.

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