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**THE ROLE OF
MULTINATIONAL CORPORATIONS
IN SOUTH AFRICA**

Edited by
Deon Geldenhuys

STUDY GROUP SERIES



**DIE SUID-AFRIKAANSE INSTITUUT VAN INTERNASIONALE AANGELEENTHEDE
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THE ROLE OF MULTINATIONAL CORPORATIONS IN SOUTH AFRICA

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FOREWORD

The SAIIA is an independent organisation concerned with the study of international issues generally and of issues affecting South Africa's foreign relations in particular. The latter inter alia includes examining the Republic's external economic relations. South Africa's economic links with other countries, particularly the Western powers, remain the strongest element of its foreign ties (although these links too have become increasingly politicised).

An assessment of the Republic's economic relations with the West has to take cognizance of the major role played by Western MNC's in the South African economy. There are also various other reasons for focusing on MNC's. First, due to the scale of their operations in the Republic, they are in a position to exert some measure of influence in the socio-political as well as economic spheres. Second, given South Africa's international standing and external pressure, these foreign-linked companies operate in a particularly complex and sensitive international political environment. Third, South Africa's peculiar socio-political structures present MNC's with a rather exceptional set of circumstances in their local operations. Fourth, MNC's per se are a phenomenon which has attracted a considerable degree of international attention and investigation. It should be added that a study of MNC's could be particularly relevant to our corporate members since many of them are actually MNC's.

Against this background, the SAIIA organised a study group on MNC's in South Africa. Through the study group, we endeavoured to provide a forum where interested people representing a variety of professions and interests - including MNC representatives - could have the opportunity to exchange views freely on various aspects of MNC operations in South Africa. The primary focus was, however, on the socio-political dimensions - thus the reference to the "corporate options" in some of the papers in this volume.

The study group, it should be emphasised, was not a mere talking shop. Its deliberations formed the basis of an ongoing SAIIA research project on MNC's. The present publication of papers presented to the group in the past year is the forerunner to further publications in future. It can also be mentioned that the SAIIA has already made good progress in building up its own reference resources on MNC's for information and research purposes.

DEON GELDENHUYS

Assistant Director (research)
and Secretary of the study group.

2. THE STAKE OF MULTINATIONAL CORPORATIONS IN THE SOUTH AFRICAN ECONOMY

J. Poolman

According to overseas sources, the combined European Economic Community investment in South Africa amounted to R9 851 million in 1975. Britain alone has something like 145 companies operating in South Africa, in turn running a combined total of 450 subsidiaries. West Germany has links with over 300 more companies, being either actual subsidiaries or via strong shares interest in investment which has now soared to above R1 500 million. In the beginning of 1978, an estimated 350 American companies were operating in South Africa, with an aggregate direct investment of nearly R1 275 million, representing an estimated 17 per cent of the total foreign investment in South Africa. Apart from these glimpses of detailed information, we have for the rest to rely on deductions from the national accounts published by the Reserve Bank.

It is common knowledge that South Africa needs the maximum domestic savings over the long term for purposes of investment and economic growth. Since 1961, the ratio of gross national saving to gross domestic saving has declined steadily from 1,0 to about 0,8. The decline was particularly noticeable since 1968. This in effect meant that the contribution of foreigners to domestic saving as compared with local citizens, was increasing. (National saving refers to savings by South Africans as opposed to domestic saving which consists of all domestic saving, i.e. by both South African citizens and non-South Africans).

On the acceptable assumption that MNC's are responsible for a considerable share of the savings of non-South Africans, the obvious conclusion is that the contribution of these companies to South Africa's growth is becoming increasingly important.

The growing importance of foreign investment in South Africa, together with the share of foreigners, particularly MNC's, in the country's economic development, can also be gauged from the Foreign Balance-sheet. Since 1968, the ratio of South Africa's foreign liabilities to its foreign assets has declined from 0,5 to about 0,25 at present. This implies that foreign investment in the Republic is not only considerably larger than South Africa's own foreign investment, but also that this imbalance is becoming more marked.

Movements within these relatively increasing foreign investments in South Africa are also enlightening. The ratio of interest bearing investment (which is normally associated with direct investments) to dividend yielding investment (normally associated with indirect investment) has more than doubled since 1960 - from about 0,5 to about 1,5. This increase was especially noticeable since 1969.

The ratio of direct investment in the private sector to total direct investment remains fixed, but the ratio of share premiums, reserves and undistributed profits (attributed largely to the MNC's) to private direct investment and therefore to total direct investment, shows a decline and improvement which corresponds with the trade cycle. At the onset of the recession overseas in 1973, the above ratio was relatively high. Since then it has declined, but has shown some improvement since 1975, coinciding with the economic upswing overseas (see Table 1).

Professor Poolman, a business economist by training, is Vice-Rector of the Rand Afrikaans University. Prof. Poolman, who chaired the study group, presented this paper on 25 April 1979.

Table 1 (Rm)

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
1. Total direct investment	5613	6703	7443	8181	8701
2. Direct investment, private sector	5451	6484	7216	7928	8430
3. Private sector: Share premiums, reserves and undistributed profits	3226	3674	3912	4432	4725
<u>Ratios</u>					
2 to 1	0,971	0,967	0,970	0,969	0,969
3 to 2	0,5918	0,5666	0,5421	0,5590	0,5605

The following deductions can also be made with respect to the share of MNC's in the South African economy on the basis of region (see Table 2):

1. The share of EEC countries in the total direct investment has declined from 67,5 per cent in 1973 to 62 per cent at present.
2. Small increases were experienced in the share of the rest of Europe and the Americas. The percentage share of the former has increased from 7 to 8 per cent, whilst that of the latter has improved from 22 to 25 per cent. (It is possible that there is some relation between the increase in the ratio in respect of the Americas and the expanding economic relations between South Africa and South America.)
3. It is also interesting to note an increasing direct investment from Africa, however small and fluctuating. In the case of direct investment from Asia, an increase is also noticeable.

Table 2

Direct Investment in South Africa - Private Sector

	(Rm)					%				
	1973	1974	1975	1976	1977	1973	1974	1975	1976	1977
Total	5451	6484	7216	7890	8430	100	100	100	100	100
EEC	3685	4300	4622	4990	5259	67,5	67	64,3	63	62
Rest of Europe	357	462	528	619	701	7	7	7	8	8
North and South America	1205	1503	1806	1990	2084	22	23	25	25	25
Africa	114	90	107	111	199	2	1	1,6	1,4	2,4
Asia	28	57	87	110	107	0,5	0,9	1,2	1,4	1,3
Oceania	60	65	64	62	60	1	1	0,8	0,8	0,7
Other	2	7	2	8	20	0	0,1	0,1	0,4	0,6

WHAT ARE THE CORPORATE OPTIONS IN SOUTH AFRICA?

A GERMAN VIEW

N.H. von Verschuer

Introduction

It is, of course, not possible to speak on the subject given without submitting facts and figures about the German firms operating in this country. There are roughly 450 firms with German interests in South Africa. German firms provide labour for between 35 - 40 000 employees. There are 20 large German multi-national companies in South Africa, 10 of which are ranked in the top hundred of the global giants. Firms like Volkswagen, Mercedes, Siemens, Krupp, Thyssen, AEG, BMW, Hoechst, Bayer, BASF and Salzgitter are very well known in this country.

In 1977 total foreign investment in South Africa amounted to roughly R21 billion. It is estimated that between DM4-6 billion, which is approximately R2-3 billion, are invested by German investors. Direct German investment, however, amounted to only about DM618,7 million in 1978. Germany in 1978 became the biggest supplier of South Africa. In 1978 South Africa imported German goods worth about R1,275 billion. German exports have increased by about 18 percent in comparison to 1977. The total volume of trade between the Federal Republic of Germany and South Africa has grown by 7,5 per cent during 1978 (from DM5,153 million in 1977 to DM5,537 million in 1978).

From these figures, one may gather the importance and relevance of South Africa for German firms.

- I. What are the reasons for German MNCs to invest in South Africa?
- II. What are the advantages for German MNCs if they commit themselves to such an investment?
- III. What are the disadvantages that German MNCs have to face in respect of the political situation in South Africa, given the pressure on German MNCs to withdraw or curtail investment in South Africa?

I.

Until today, South Africa is one of the most attractive countries for overseas investors and still the target for corporate expansion of multinational corporations throughout the whole world. Many industrial leaders are well aware that exceptionally high profits can be gained in South Africa, and that the setting up of own factories or subsidiaries is the best way of achieving a greater share in the expanding South African market and the markets of the adjoining countries. A recent study has shown that corporations achieve in average about 14,9 per cent profit after tax on capital invested in South Africa, compared with 9,5 per cent in the United States. This clearly indicates that foreign firms and investors can expect high profit opportunities if they invest in this country.

For all German MNCs, the total commitment of the South African Government towards a free enterprise system is an important factor for any engagement in this country. In spite of the presence of large government-owned corporations, the entrepreneur is deeply rooted in the business world in this country. Nationalisation of corporations or governmental interference has never been demanded by any registered party. Not one of the registered political parties is socialistically orientated. All the firms are less affected by governmental red tape and rules and regulations than in most other countries of the world. Foreign investment has always received preferential treatment by the Government.

Apart from these reasons, the advantage for investment of German multi-national firms can be seen from the following arguments:

II.

1. *Raw materials*

Without taking the production of oil into consideration, South Africa is, after the Soviet Union, the most important supplier of raw materials. South Africa supplies 86 per cent of the total Western production of platinum, 75 per cent of gold, 58 per cent of vanadium, 41 per cent of chrome and 40 per cent of manganese. In the production of uranium, South Africa is in third position and is at present the most important supplier of the Federal Republic of Germany. All raw materials required for the manufacture of industrial products are available in South Africa. The coming on stream of SASOL II in 1980 and SASOL III in 1982/83 will also help to ease the present short term problem of a reliable and sufficient oil supply for the industry.

2. *Infrastructure*

A further reason for exceptional investment prospects in South Africa can be found in the very well developed infrastructure of this country. South Africa has several modern harbours, to name only the large harbours of Richards Bay and Saldanha Bay as bulk terminals, as well as the new modern container terminals in East London, Port Elizabeth, Durban and Cape Town. South Africa's road system is also quite extensive and totals 185 000 km. The South African Railways total network is approximately 23 000 km.

3. *Labour market*

Still today the very low labour costs in comparison with the high European wage system and the availability of labour offers a considerable advantage for all German firms. Some German multi-national firms have started to use South Africa as a base for the manufacture of goods for export to other countries in the world. As an example, one could mention BMW which has planned to export locally manufactured left-hand driven vehicles. A further advantage can be found in the comparatively low company taxation.

4. *Sales prospects*

South Africa is a continuously growing and expanding market. Because of the improvement in salary and wages of the black population, a growing number of consumers is able to afford the ever-increasing number of goods.

5. *Industrial environmental protection*

It should be noted that the costs for industrial environmental protection are still much lower than in all the European countries where these protective measures form a considerable part of all new investments.

6. *Competitive advantages*

After investment the firms enjoy competitive advantages, by means of the import restrictions imposed by the Government in order to limit the imports of various goods to this country.

7. *Participation of capital/transfer of profits*

There is no limit to foreign participation in shares of South African companies and no limit on the transfer of profits from South Africa.

III.

These options have to be seen in the light of various disadvantages, which can be summarized as follows:

- There is a lack of skilled labour in South Africa.
- The local content programme of the South African Government forces the firms to increase their investments in South Africa extensively in order to continue manufacturing.
- The existing Exchange Control regulations.
- The most important point: the political situation in South Africa.

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The restrictions imposed on MNC's by the Exchange Control Regulations merit a few brief comments.

It should be noted that many German firms see in the recommendations of the De Kock Commission a considerable improvement regarding foreign currency transfers. This point of view is underlined by the recent investment by Volkswagen of approximately R35 million, which will be effected via the Financial Rand.

However, many representatives of German firms still feel that Professor Spandau of the University of the Witwatersrand was correct in saying that "in foreign exchange matters South Africa behaves like a bank, which offers clients saving accounts where deposits are welcome but where withdrawals are considered a criminal offence". In the event of the retransfer of direct investment there is only the possibility to retransfer the amount received from selling their shares or assets by changing them into the Financial Rand and paying them into a special Financial Rand transfer account. If the firms intend to exchange the Financial Rand into foreign currency, there is a continuous uncertainty about the discount rate of the Financial Rand. This may still cause difficulties for potential investors.

One has to deal more comprehensively with the political issues, which make the investment of German MNC's in South Africa more difficult. It can certainly be taken as correct when Dr. Chris van Wyk, Senior General Manager of the Trust Bank of Africa Limited, states that "too many foreign businessmen maintain a low visibility with respect to South Africa - has become the in-phrase". Unfortunately, as Dr. van Wyk put it, managers of foreign firms cannot wish away the irritation pertaining to such things as the Sullivan principles or the EEC code of conduct, or trade union intimidation, or lobbying by the churches and universities against business with South Africa. How is this pressure exerted on German MNC's?

Even among leading businessmen there is a tendency in Europe to have a pessimistic outlook on the political situation in Southern Africa and to regard any economic engagement or investment as highly suspect. The contrast between the living standards of the various population groups and the considerable variation of their income is often regarded as depressing and/or oppressive. In a somewhat misdirected understanding of the issue, the Soweto riots of 1976 are treated as proof that the political tensions between the various population groups will cause revolutionary action. Although this view may not be shared by leading managers of German multinational corporations, all political issues have given rise to irritation which possibly could have prevented the one or the other firm from extending its investments or making new investments in South Africa.

Emphasis must be given to the role which the unions, who form part of the powerful opposition to South Africa, play in all corporate decisions. According to the German law on co-determination (Mitbestimmungsgesetz) in all companies having more than 2 000 employees (which in practice means all multinational companies) one half of the controlling board of directors consists of representatives of employees duly elected by the same. The executive management boards of the companies have to be appointed by the controlling board of directors by a two-thirds majority. The reason for mentioning the law on co-determination is that this measure has given the unions the opportunity to influence and to take part in corporate decisions such as, for example, new investments in South Africa.

Past experience has shown that the German unions use their powers in an unprejudiced way. In their decisions, labour representatives concentrate their influence on all aspects of real interest (i.e. job security) for the employees. However, political motivations, which may have their roots in the European Trade Union Movement for solidarity of all workers may compel union representatives to vote against certain corporate plans which in the views of the union may not be opportune. As is known, many European unions have in the past intensively voted for an economic boycott against South Africa. A number of trade union representatives are of the opinion that only through economic sanctions against this country can the situation of the black employee be drastically changed and improved. The possibility remains that out of a misdirected feeling of solidarity, actions may be taken which can lead to a sharp deterioration of the living standards for black employees in South Africa. In this context, it is remarkable that the head of one of the biggest German unions, the Chairman of the Metal Workers Union, Mr. Loderer, who is at the same time Deputy Chairman of the Controlling Board of Directors of Volkswagen, has stated during his recent visit to South Africa that he is opposed to an economic boycott of South Africa at this stage, because this would certainly result in the loss of jobs for black employees.

The visit of Mr. Loderer to South Africa, and his accordingly better understanding of the situation, may have also been one of the reasons why the union representatives in the Controlling Board of Directors of Volkswagen have agreed to the proposed investment of R35 million in South Africa.

According to estimates of Professor Spandau of the University of the Witwatersrand, and to sources in German industry, an economic boycott against South Africa would lead to a loss of jobs for approximately 100 000 German workers. Although these figures are only an estimate, they seem to be realistic if one takes into account the volume of trade between the Republic of South Africa and the Federal Republic of Germany.

During a visit to Volkswagen in Uitenhage, the Management was not in a position to give me a precise answer to the question of how many jobs at Volkswagen in Germany are secured through the engagement of the firm in South Africa. Volkswagen South Africa, however, believes that approximately 3 500 jobs in Germany are made more secure by the activities of Volkswagen in this country. In my opinion, the obvious and understandable intentions of the South African Government to achieve greater independence in the implementation and expansion of the local content programme could also be seen from the point that because of this policy, jobs in Europe may well be lost. I think that one of the best arguments at present against an economic boycott of South Africa is to be found in the fact that firstly, South Africa is one of our most important suppliers of raw materials, and that secondly, secure jobs in Germany will be lost by the implementation of such a boycott.

I therefore feel that the South African Government would be well advised not to expand their local content programme after phase 5 has come into operation. I know that this is a very problematical point, given the facts that the Government is compelled to provide 200 000 new jobs annually to cope with the black unemployment situation. On the other hand, I fear that a further relaxation in the interdependence between South Africa and the Federal Republic of Germany and Europe as a whole in the field of labour will give the unions the opportunity to politically interfere and disrupt investment in South Africa as job security in Germany will then be of no importance for the unions in their corporate decisions.

As I was asked to reflect on the political role in which German multinational companies found themselves in South Africa, reference must be made to the EEC Code of Conduct. In the Code, in 7-point form, certain requirements have been set up for all companies having subsidiaries, agencies or branches in South Africa. In these 7 points, relations between the employees and management within the firm, the problem of discrimination, the problem of equal pay for equal work and the problems of migrant labour and advancement opportunities for black workers are fully covered.

After the United States and Great Britain had set up the Sullivan Code and the British Companies Guidelines, the Ministers of the EEC have, in September 1977, drafted a Code of Conduct for European firms with subsidiaries, agencies and branches in South Africa. The Code provides that firms have to report each year about the achievements made in regard to their black labour force. The Code is not legally binding as such, and therefore the various governments of the EEC have to rely on the co-operation of the firms in the application of the

Code's principles. At this stage it must be stressed that especially the German multinational companies are under pressure of German public opinion regarding the fulfilment of the Code's principles. Smaller firms may not receive the attention of public opinion or of investigations made by churches or other social groups regarding the fulfilment of the Code. Several investigations have in the meantime been made by German multinational companies.

Some German firms have held that the requirements of the Code are not justified. These firms have pointed out that the Code requires certain changes of them which they cannot fulfil without contravening South African law. These comments of German firms have been construed (also by South African politicians) as allegations to merely protect their own interest. Also, I cannot exclude that in special cases such arguments have been wrongly used to avoid certain requirements of the Code. I want to stress that most of the German firms have fulfilled the Code. This particularly applies to the problem of equal wages for equal work, which in most of the German multi-national companies has been realised to a large extent. It is, however, a fact which cannot be denied by South African authorities that in the Industrial Conciliation Act certain provisions prevent the fulfilment of some of the requirements of the Code such as the equal training of skilled labour and the full integration of social amenities (according to the Industrial Conciliation Amendment Act, a full integration will be possible in future). This may well be the reason why even today not all MNCs have fully integrated canteens.

The progress made in the field may often be underestimated in Germany because critics are not aware of the fact that the in-company opposition of white unions against integrated amenities has been so powerful that considerable efforts to persuade the white staff were required to fulfil the demands of the Code. Managers of German firms with whom I have spoken recently have assured me that the Department of Labour has been very co-operative with regard to all applications for integrated social amenities and has granted exemptions from the Industrial Conciliation Act in various cases. I take the view that it is therefore not justifiable to blame only the Government whenever certain requirements of the Code have not been fulfilled. There are always some black sheep, but I am glad to say that firms like Volkswagen may be taken as an example for German firms which in my opinion have in an exemplary manner regulated the co-operation between the different races in their jobs and have insisted that this positive co-operation is reflected in the mutual use of the amenities as well.

The requirement to report about the achievements made in terms of the Code has been fulfilled by all German multinational companies. It remains to be seen how the Government of the Federal Republic of Germany will deal with the reports. Only then can it be ascertained whether the Code will be amended and whether a more precise form of report will be required. It can only be hoped for that the German MNCs in South Africa are not affected in their competitiveness by outrageous demands. It should be taken into account in Europe that some firms can be forced to rationalise their manufacturing process if unjustifiably high wage demands for black labour are made in accordance with the Code which could well lead to a dismissal of workers and which will not provide a solution to South Africa's unemployment problem. Such a development which can be foreseen for American firms by the tightening of the requirements of the Sullivan Code is not acceptable to German industry.

German firms very frankly admit that the training and education of black African employees is in need of considerable improvement in order to move them into the higher wage brackets. But it should also be made clear that such a demand cannot be fulfilled immediately as these education and training problems can only be solved in the form of an evolutionary process. It can be argued about the moral justification of the EEC to force and implement such a Code. I agree with the South African view that the basic principles of the Code should be made applicable not only to South Africa but to all countries where EEC multinational companies are operating.

Many people in Germany (and I myself take the same view) are convinced that the EEC Code of Conduct and the other codes have speeded up a certain process of liberalisation in this country, especially as it is believed that the practical example of paying the same wages for the same work and the implementation of integrated amenities had an influence on the findings of the Wiehahn Commission. Although Professor Wiehahn denied such an influence in an interview with our monthly news bulletin "REPORT", a black member of the Wiehahn Commission has assured me that the various codes had indeed affected the findings of the Commission.

Conclusion

As far as I am concerned, the often expressed threats of an economic boycott against South Africa, which could lead to a total prohibition of trade and investment in South Africa, is today less likely than it was two years ago. Politicians and experts in Western countries have in the meantime realised that such measures are not suitable to bring about a change of the internal political situation in South Africa. Such boycott threats could lead to a different political orientation in South Africa in the field of foreign affairs, which has been indicated by Mr. Pik Botha recently in Switzerland. Furthermore, Western countries are more aware of the fact that the dependence on mineral supplies from South Africa is so extensive that boycott measures against this country would cause economic shortages which might affect Europe more than this country. But even so, the government of this country would be well advised by means of adopting more flexible negotiating tactics in order to avoid a further increase of a powerful opposition force against South Africa in Europe and the States.

The German firms are well aware of the options South Africa offers them. The German firms will therefore do everything in their power to have a share in the economic development of this country. Rest assured, the German industry remains a firm friend of South Africa in a time where South Africa needs all its friends.

4. *WHAT ARE THE CORPORATE OPTIONS IN SOUTH AFRICA? A SOUTH AFRICAN VIEW*
M.C. O'Dowd

Obviously we cannot discuss this rather vague topic except against the background of the campaign against multinational corporations which is being waged in the world for I assume that what we are actually discussing is what options do the corporations have in relation to their objective situation and to this campaign.

We must first note that one option that they do not have is to meet their critics' demands since these demands are not merely unreasonable but are grossly self inconsistent. Three of the most major inconsistencies in the attacks made on multinational corporations are the following -

1. The multinational corporations are accused at the same time and sometimes by the same people on the one hand of exploiting developing countries in the interests of the developed countries and on the other hand of exporting capital and in the process, "exporting jobs" from the developed world to the developing world and of competing with the developed world "using cheap labour". The latter accusation amounts to the accusation that they are in fact developing the underdeveloped country and they are creating there both employment opportunities and opportunities for competitive exporting. While it is not impossible that both accusations may be true of particular situations they cannot both be true as generalisations.
2. Those who demand disinvestment from South Africa set themselves up as the declared enemies of South Africa but do not admit to being the enemies of multinational corporations. It is fundamental to their position that the operation of the multinationals in South Africa is beneficial to South Africa and that its withdrawal would be harmful. This is grossly inconsistent with the allegation which comes from the same people, and certainly from the same institutions, that the operation of the multinational corporations is harmful to the countries in which they operate. Indeed, if they really believe this the friends of the developing countries and the enemies of South Africa should be demanding increased investment in South Africa and disinvestment from the rest of the developing world. The operation of the multinational corporations may, of course, have both advantages and drawbacks but it simply cannot be on balance both advantageous and harmful to the countries where it operates.
3. The third inconsistency, that in relation to countries other than South Africa the multinationals are accused of interfering in local politics and manipulating affairs so as to impose policies which are the policies of the developed countries on their host countries. In South Africa they are bitterly accused of not doing this.

Quite clearly the multinationals cannot win and are not meant to be able to win. The campaign against them is part of the "struggle for socialism" and is intended to bring about the destruction of a particular capitalist institution while other capitalist institutions are destroyed by other means. I would also suggest that one of the reasons for the intensity of the attacks on the multinationals is that socialists are embarrassed by the success of the development and improvement of living standards in developing countries brought about by the operation of the multinationals. One of the accusations, which is in part true, is that the multinationals export capital and know-how to the developing countries and thereby put them in a position to compete with the developed countries. Whether in doing so they actually

Mr. O'Dowd is a Manager and Alternate Director of the Anglo American Corporation. His paper was read on 18 July 1979.

harm the developed countries is very doubtful since whatever the developing countries earn they must spend and the more they export the more they necessarily import. They can, however, undoubtedly cause harm to particular interests and industries which are unwilling or unable to adapt to changing circumstances. If one assumes that the world owes a living to the British textile worker and owes no living to the people of Hong Kong then those who have exported textile spinning know-how to Hong Kong have done wrong. What is still more embarrassing to socialists is that government controlled development aid has been conspicuously less effective than the operation of free enterprise channelled through the multinational corporations.

It is most important in considering their options that multinational corporations should recognize that they are dealing with enemies who are bent on their destruction for ulterior motives. This does not mean that they can ignore the attacks made on them. These enemies are part of the environment in which they function and have to be dealt with, but nothing could be more dangerous than to try to meet criticism at its face value for this is precisely what the enemy strategy is and the criticism will be constantly and steadily altered so as to drive the corporations into a situation where they cannot survive.

Following from this let us first of all get it perfectly clear that corporate options do not include operating in such a way so as not to make a profit. The private enterprise system is based on profit and competition. The effect of competition is greatly to circumscribe the options which an individual company has if it is to make a profit. It is not normally open to a company to pay significantly higher wages than are dictated by the labour market because if it does it will be undercut by competitors who pay lower wages. Let it be noted also that it is not open to a company in a competitive market to discriminate arbitrarily in its employment practices so as not to make use of the most suitable labour available, and for this reason, however prejudiced individual employers may be the operation of a free market system will steadily and fairly rapidly destroy discriminatory practices unless they are enforced by law either directly, as in the case of job reservation, or indirectly by discriminatory education and training policies which put some people in a genuinely better position than others. Even this, however, will not ensure that the better trained are employed and the worst trained are unemployed. In the absence of other interventions imposing arbitrary wage levels the better trained will be paid more and the worst trained will be paid less but in the process of being employed the worst trained are likely to close the skill gap, learning on the job. The point I am making is that it is not an option open to corporations whether a multinational or not to take advantage of the freer labour situation which has come about in South Africa. There is an absolute imperative on them to do so and they would be forced to do so by competition in the absence of any political motives whether of South African or overseas origin.

There is some room for manoeuvre in relations to the trade-off between capital and labour. By employing more capital and less labour a company can afford to pay higher wages. By paying lower wages a company can afford to employ more people and use less capital. Of course this does not always work. There are some places where only one mix of capital and labour is possible and some where there is so

much advantage in using capital that its replacement by labour is out of the question and of course there are some where the reverse is true as for example in school teaching. Nevertheless it is very seldom true that the two mixes are equally profitable and the pressure from competition on business is to optimise. Major shifts can be manipulated by the government by such means as making capital artificially cheap or labour artificially dear. These will of course avenge themselves in the long run through capital shortage and structural unemployment, but for a time they can work. But there is very little room for manoeuvre for the individual firm in a competitive environment.

Much of the discussion of this issue is based on the unexpressed assumption that multinationals exercise monopoly power, and it is then demanded that they should exercise this power in one or other particular way. Actually, monopoly power is very rare and it is exceptionally unlikely to be exercised by multi-nationals because the root of nearly all monopolies is a government franchise of some kind. The international market is a truly free market because there is no authority which can control it and therefore monopolies in the international field are extraordinarily difficult to achieve. A multinational company may of course have a monopoly in a particular national market if it has been given a monopolistic franchise by the government but in that case if it wishes to keep the franchise it will have to play the government's game, whatever that may be. In any case I know of no example of this in South Africa.

Monopolies are a great deal more rare than is normally assumed because competition does not stop at the boundaries of a particular product. Coco-Cola for example is alleged to be a unique product and if this is true the Coco-Cola company has a monopoly of the production of Coco-Cola, but this confers on them precious little power, for Coco-Cola is, to varying extents, in competition with every other beverage from whisky to tap water. The Lion Match Company in South Africa has a monopoly of the production of matches but it is in fierce competition with cigarette lighters which are just as good as matches for virtually every purpose, not only lighting cigarettes - and so it goes on; tea competes with coffee, whisky with brandy, diamonds compete with every other kind of gem, with gold, silver and platinum and in the last resort with every consumer luxury from motor cars to furs. Only in a case of a product vital to human life and irreplaceable like salt is a fully effective monopoly possible.

Of all the multinationals the ones who most seem to exercise, not a monopoly, but an oligopoly are the oil companies, but the history of recent events makes it quite clear how little power they ever exercised. If they had wished to raise the price of oil they would have had to restrict production and this power they never had. As usual it required government action to produce monopolistic behaviour. Indeed, the main accusation against the oil companies which emerged from the oil crisis was that they insisted on behaving in a responsible manner and declined to co-operate with the "beggar my neighbour" policies attempted by various national governments.

What it amounts to is this - primarily and overwhelmingly the most important business of business is business. It is by pursuing their businesses and seeking to optimise the use of other factors of production that companies, whether multinationals or not, supply the consumer wants and create employment opportunities, in fact, bring

about economic development. Any substantial deviation from the direct endeavour to optimise the use of the factors of production will significantly reduce the amount of economic development produced. If such steps are taken unilaterally by particular companies the result will be that they will be overtaken by competitors. If they are taken by conspiracy among all the producers they will reduce the rate of economic development and will also probably, in due course, lead to cheating and to successful competition from outsiders. Conspiracies are difficult enough to maintain if they are in the interests of the conspirators. One trembles to think what is likely to happen to a conspiracy which is against their interests.

At the centre then there are really only two corporate options - to carry on or to give up - to do business or not to do business - to be or not to be - and as regards the latter alternative let us rid our minds of the absurd concept of withdrawal of investment which is so often bandied about. An investment once made consists mainly in fixed assets and goodwill, that is the difference in value between a going concern and its assets value separately. These cannot be withdrawn; they can only be sold for what they will fetch or in the last resort abandoned. Indeed, the programme of the "withdrawal of investments" school appears to be a curious form of enforced nationalisation where the assets of the multinationals are to be handed over free to the South Africans, yet the same people urge other developing countries to nationalise the multinationals by force. We come back to the extraordinary situation that apparently what is medicine to other developing nations is poison to South Africa. The only question is whether these doctors are in fact trying to poison South Africa with penicillin or to heal the other developing countries with arsenic.

As I have already mentioned, to take the fullest advantage of reduction of enforced discrimination and to take all available measures to bring about further reductions is not an option, it is an imperative.

The options, therefore, are strictly peripheral. Companies can, and indeed should, avoid utterances and actions which appear to be irresponsible or to imply indifference to the public welfare. They can and should spend modest sums drawn from their profits on social welfare and similar projects, and indeed, if this is done with care and skill and areas are sought out where great leverage is available the total effect achieved can be considerable but it can never be anything near the effect of the efficient pursuit of profitable business. They can and must, as business always does, take on protective colour in relation to the changed atmosphere of opinion so just as in the past when racism was at its height in South Africa, business and especially international business, pretended to a greater degree of compliance than it practised; now it may find it expedient to indulge in window-dressing which pretends to faster progress in Black advancement than is really possible but this has nothing to do with the real need that such advancement should go as fast as possible in order to overcome the deadly stranglehold of artificially produced shortages of skilled labour.

Of all the Marxist fallacies propagated against business as a whole none is more absurd than the idea that business fears the advancement of unskilled workers or, in South Africa, specifically of the Blacks

because it is concerned to keep unskilled labour cheap. It hardly requires a moment's thought to see that in any situation where unskilled workers are in the majority the advancement of any one individual from the unskilled to the skilled ranks will have a greater effect in holding down skilled wages than in raising unskilled wages which is why historically capitalism has been the great solvent of the hereditary castes of feudalism.

To sum up then, fundamentally, the only options which companies have are either to give up or to do business to the best of their ability according to business principles, seeking to optimise the efficiency of the use of their resources. In doing this they do far more for the benefit of the countries where they operate than they can do in any other way. At the same time, as always, they have to adapt their style, their image building and their public utterances to the atmosphere and circumstances of the time. They have always done this, but as times change so the response to them has to change as well.

5. THE IMPLICATIONS OF THE NEW SWEDISH LAW ON INVESTMENT IN SOUTH AFRICA

E.K.M. Lehtonen

The mass media has been giving a one-eyed look at the new Swedish law and its prohibitions, which is not the true spirit of this law. I can quote here from the magazine Management of June 1979, where reference is made to a Swedish company that has been taken over by a South African company. It says: "The deal follows the Swedish Government's policy of disinvestment in South Africa." I underlined the word 'disinvestment', because that is absolutely not true. There is no disinvestment of Swedish interests in South Africa whatsoever.

The turnover of eleven Swedish companies in South Africa was estimated in 1978 to be approximately R125 million. The Swedish companies in South Africa gave employment to approximately 5 500 people in 1978 and our annual disbursement in wages and salaries at the end of 1978 was approximately R20 million. There are about 4 800 people who are directly involved with the export of products from Sweden to South Africa. These are employed in Swedish factories, but there are many more indirectly concerned.

In 1977 Swedish trade with South Africa amounted to close on R100 million and exports from South Africa to Sweden to about R73 million, which is an increase from R26,5 million in 1976 and R17,5 million in 1975. South African imports from Sweden have also increased, because in 1976 it stood at R89,6 million. How, then, can it be said that trade between our two countries is diminishing?

Let us consider the multinational companies which are presently in South Africa, such as ourselves. There are close on 100 firms which trade with Sweden, most of them importing components for distribution in the Republic and several which regularly export to Sweden.

An example of the recent investments effected by Swedish international companies is the Transatlantic Shipping Line's commissioning of four modern RO-RO ships to service the Gottenburg-South Africa traffic at a cost of hundreds of millions of Rand. These commissionings represent a considerable capital investment but, more important, a tremendous faith in the Swedish-South African trade.

In June 1977 the Swedish Parliament decided to request the Government to appoint a commission of enquiry on measures to be instituted by Sweden against capital exports to South Africa in conjunction with Swedish company investments in South Africa. The following month the Swedish Government accordingly appointed a committee consisting of five members, all of them Swedish politicians. The committee's report, which was submitted to the Minister of Trade in August 1978, stated that the limitation of Swedish commercial operations in South Africa should be brought about through two simultaneous measures, viz. firstly a prohibition of capital exports and secondly an agreement between the State and the companies concerned that they should not counteract the Government's aim of prohibiting capital exports, by financing investments in South Africa by means other than capital from Sweden.

The findings of both a special investigator, Mr. Walter Aman, and the Swedish Government, was that Swedish companies engaged in South Africa did not

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appear to be prepared to assist in restricting Swedish commercial operations in South Africa. For this reason the committee considered it necessary to seek legislative means other than prohibition of capital exports to attain that limitation. The legislation's primary aim is to stop further new investments in South Africa. A total prohibition of all investments would, however, fall unduly heavily on already established Swedish companies in the area. The committee foresaw a need for exemption from a general prohibition of investments, principally in order to limit losses and avoid staff reductions at companies in Sweden. This idea also found support in the debate preceding Parliament's decision. The legislation amounts to a prohibition in principle on companies domiciled in Sweden undertaking or participating in certain transactions related to financial operations in South Africa.

However, and this has to be stressed, since Sweden is a signatory of the GATT agreement, it has undertaken vis-à-vis South Africa the same obligations as regards trade with the other GATT countries. Unilateral interruption of trade would, for example, be contrary to international agreement. This means that South African imports from Sweden are in no way affected by the prohibition of investment in South Africa. It is only capital investment which is affected, not a prohibition on the export of products. The object of this prohibition is not to put an end to the Swedish controlled companies in South Africa, but to make allowances for those companies operating in South Africa to exist under a 'sustained flame' principle until the differences of opinion in the political sphere between the two countries have been overcome.

The act applies primarily to Swedish business enterprises, for instance, limited liability companies, incorporated associations, trading partnerships, etc., and the liability has been imposed on a group management under penalty of law, to ensure that subsidiary companies of the group in South Africa and other foreign countries do not engage in investments contrary to the Swedish legislation relating to South Africa. (A group relationship exists when, through possession of shares or an interest in earnings or by agreement, a Swedish company has a controlling influence over another corporation and a significant share in its operations. The fundamental factor in the group relationship is accordingly that the group management exercise a controlling influence over the subsidiary.) It should be added that there are several companies in South Africa which are minority owned by Swedish interests.

The liability rests upon the management of Swedish groups with subsidiaries in South Africa to supervise the law. The main points of this law are:

- First and foremost, the Government wishes to prohibit Swedish-controlled groups which today do not conduct business in South Africa to become established in this market through investments.
- Secondly, there is a prohibition on the acquisition of shares or interest and a prohibition on the acquisition of bonds or similar securities issued by South African companies. The prohibition also extends to a contribution to such a company, of money or other property, to be used in its operations.
- Thirdly, there is a prohibition on the placing of security such as collateral guarantees or the like, for the long-term debts (with more than five years maturity) in a South African company.

There is also a prohibition on the acquisition of fixed assets for such companies. However, the law says that the prohibition principally on the investments must be modified by certain exemptions, and this is a very important factor in the law. The exemption is subject to the proviso that no such exemption should be granted for a corporation which was not established in the area when the law came into force on 1 July 1979. Also, the exemption should not allow scope for expansion in the South African market.

The law is prepared to accept an arrangement under which the Swedish enterprise can survive in South Africa and thus to allow Swedish industry to retain a foothold in the South African market until the political differences between the two countries have been resolved. The law accepts the principle that companies may consider investing to the extent that it is absolutely necessary for them to replace worn-out equipment or burnt-down factories. There should be no question of expansion of operations, which means they have to keep the productivity as it is today, but this is applicable to those companies which have majority interests of Swedish origin. The law has also considered an exemption system which gives the Swedish companies in the area the freedom to make replacement investments in South Africa on their own responsibility within the prescribed limits. The system of exemption is based on the principle that the companies each year apply for permission for the investments which in their opinion must be made in the next financial year.

Consideration has been given to the situation in which a worn-out plant in South Africa needs to be replaced by a new plant to be constructed over a period of more than one year. In such a case, it is possible to grant an exemption for the entire investment project.

The applications for exemption will be examined by the Government, and the Government would request an opinion from the authorities concerned before reaching its decision.

Looking at it from the positive point of view, this law can be summarized in a few sentences:

- Firstly, the law is intended only to limit Swedish commercial operations in South Africa and not to cancel already existing operations or to withdraw them.
- Secondly, the object of the legislation is not to put an end to Swedish companies in South Africa, but to allow them to exist without expansion possibilities.
- Thirdly, no new subsidiary companies are to be started.
- Fourthly, no acquisition of shares or interests apart from those already existing is permitted.
- Fifthly, no placing of security, collateral guarantees or the like for long-term debts with more than five years maturity is permitted.

It has to be emphasized that the law is only a prohibition on capital exports from Sweden to South Africa, and not on products. It must also be remembered that it is not a prohibition on all investments. The summary of the report, which

preceded the law, states: "A total prohibition of all investments would fall unduly heavily on already established Swedish companies in the area." For companies operating in South Africa with South Africans as majority shareholders, there are limitations in the application of the law.

As far as my company is concerned, I can inform you that we have never had any problems whatsoever in deliveries from Sweden to South Africa of the products that we trade in, nor do we envisage any problems of this nature. Nevertheless, I believe that every executive in charge of a company affected by this law has his contingency plans. Without divulging our contingency plans, I can say that we have plans which can be put into operation extremely fast and this would mean that we will not be affected by a cut-off in supplies. Our plans could, moreover, not be circumvented by any new Swedish law.

There are two aspects to our lives, one is the political and the other the commercial. The political aspect is of no interest to myself nor to anyone else of the Swedish community in a chief executive position in this country. On the contrary, we feel that the politicians should be left alone, to a certain degree, and that only when steps are taken that could damage our business interests, should we raise our voice.

I think that the South African community, both businessmen and others, are a little too sensitive about political statements made in other countries concerning South Africa and are reluctant to buy products from a certain country of origin, namely Sweden. There are many occasions when our companies are losing out simply because of the country of origin of our products and this seems to be particularly predominant in Government circles. This is often to the detriment of both parties.

South Africans should not be so sensitive to political issues which have practically nothing to do with the commercial-business operations of any country. I also wish to stress what I consider a very important point, viz. that South Africa's best friends are the business communities of the world. I believe that it would be very dangerous if the business communities of the world get treated in a way that would not be considered fair competition and turn their business against you. That could really be the most dangerous thing that could happen to business in any country.

6. THE UNITED NATIONS COMMISSION AND CENTRE ON TRANSNATIONAL CORPORATIONS

J. Poolman

Background

In July 1972, the United Nations Economic and Social Council upon the initiative of the Government of Chile, in a unanimous resolution requested the Secretary-General to appoint a Group of Eminent Persons to study the role of what was referred to as "transnational corporations" and their impact on the development process, especially in developing countries, as well as their implications for international relations. The Group of Eminent Persons, consisting of 20 members and chaired by Mr. L.K. Jha of India, met between September 1973 and April 1974 in New York and Geneva, and heard some 50 witnesses from governments, labour, business, consumer groups and universities. According to the chairman, the essential task before the Group "... was to discover ways in which the undesirable side effects could be eliminated and the capabilities of the transnationals could be utilized in a manner which would be most helpful to the countries in which they set up production." In their report entitled The Impact of Multinational Corporations on Development and on International Relations issued in May 1974, they recommended the creation of a permanent commission composed of individuals with a profound understanding of the issues involved, and the organization of an information and research centre within the United Nations Secretariat. As background document for the Group, the Department of Economic and Social Affairs prepared a paper Multi-national Corporations in World Development, which was issued in June 1973.

In August 1974 the United Nations Economic and Social Council unanimously decided to establish appropriate permanent machinery to assist the Council in dealing with the full range of issues related to transnational corporations. It also decided to establish an information and research centre and requested the Secretary-General to set up a nucleus of the Centre. In December 1974 the Council established the intergovernmental Commission on Transnational Corporations as an advisory body.

The Commission on Transnational Corporations

The Commission is composed of 48 members elected by the Council for three-year periods on a broad geographical basis: 12 from Africa, 11 from Asia, 10 from Latin America, 10 from developed market economy countries of Western Europe, North America and Oceania, and 5 from the socialist countries of Eastern Europe. The resolution in terms of which the Commission was established (resolution 1913) requested that each State appoint as representative to the Commission a person with expert knowledge of the issues involved. The Commission meets annually and has the following functions:

1. Serves as the central forum within the United Nations system for the comprehensive and in-depth consideration of issues relating to transnational corporations.
2. Promotes an exchange of views among governments, intergovernmental and non-governmental organizations, trade unions, business, consumers and other relevant groups through the arrangement, inter alia, of hearings and interviews.

3. Provides guidance to the Centre on Transnational Corporations on the provision of advisory services to interested governments and the promotion of technical co-operation activities.
4. Conducts inquiries on the activities of transnational corporations, making studies, preparing reports and organizing panels for facilitating discussion among relevant groups.
5. Undertakes work which may assist the Economic and Social Council in evolving a set of recommendations which, taken together, would represent the basis for a code of conduct dealing with transnational corporations.
6. Undertakes work which may assist the Economic and Social Council in considering possible intergovernmental arrangements or agreements on specific aspects relating to transnational corporations with a view to studying the feasibility of formulating a general agreement and, on the basis of a decision of the Council, to consolidating them into a general agreement at a future date.
7. Recommends to the Economic and Social Council the priorities and the programmes of work on transnational corporations to be carried out by the Centre.

The first meeting of the Commission which was held in New York in March 1975, discussed organizational matters and a preliminary programme of work; the second, which took place in Lima, Peru, in March 1976 elaborated and accepted by consensus the detailed work programme. During the latter session the Commission decided to select 12-15 persons on the basis of their practical experience, particularly from trade unions, business, public interest groups and universities from both developed and developing countries to assist the work of the Commission. In the programme of work, the following objectives and scope were outlined:

Objectives

- To further understanding of the political, economic, social and legal effects of TNC activity, especially in developing countries.
- To secure international arrangements that promote the positive contributions of TNCs to national development goals and world economic growth while controlling and eliminating their negative effects.
- To strengthen the negotiating capacity of host countries in their dealings with TNCs.

Scope

- Work for the purpose of formulating a code of conduct.
- Establishment of a comprehensive information system.
- Research on the political, economic and social effects of the operations and practices of TNCs.
- Organization and co-ordination, at the request of governments, of technical co-operation programmes concerning TNCs.
- Work leading to a definition of TNCs.

The Centre on Transnational Corporations

The Centre on Transnational Corporations began its operations on 1 November 1975, as an autonomous part of the United Nations Secretariat upon the assumption of office by Klaus A. Sahlgren of Finland as Executive Director. The terms of reference of the Centre approved by the United Nations Economic and Social Council consist of the following:

1. To provide the necessary support to the Economic and Social Council and to the Commission on Transnational Corporations on matters related to TNCs.
2. To develop a comprehensive information system on the activities of TNCs by gathering information made available by governments and other sources, and by analysing and disseminating such information to all governments.
3. To organize and co-ordinate, at the request of governments, programmes of technical co-operation on matters related to TNCs, through existing organs of the United Nations system, aimed at strengthening the capacity of host countries, in particular of developing countries, in their dealings with transnational corporations.
4. To conduct research on various political, legal, economic and social aspects relating to TNCs, including work which might be useful for the elaboration of a code of conduct and specific arrangements and agreements as directed by the Economic and Social Council and the Commission on Transnational Corporations.

The Centre is organized according to its major functions. The Policy Analysis Division is responsible for supporting the work of the Commission on the formulation of the code of conduct and other international arrangements and agreements on specific issues as well as for undertaking research on the political, legal, economic and social aspects relating to transnational corporations. Research projects of this division include, inter alia, the impact of TNCs on balance of payments of developing and other countries, the impact of TNCs on employment, transnational corporations in Southern Africa, corrupt practices, the TNCs in different industries, such as banking, insurance, advertising, tourism, etc. The Information Analysis Division is responsible for developing a comprehensive information system, gathers, analyses and disseminates information. This information comprises data at both the aggregate and the enterprise levels, on national and on regional legislation, on contracts, and on bibliography. Projects of this Division include a survey of information on TNCs, a survey of research on TNCs, international standards of accounting and reporting, information on TNCs and technology, information on TNCs in investment, etc. The Centre's Office of Advisory Services provides requesting governments with technical advice and training on matters related to TNCs: policies regarding transnational corporations, regulation and evaluation of investment proposals and information needed in negotiation with transnational corporations and on monitoring their activities.

In accordance with a resolution adopted by the Economic and Social Council in July 1975, joint liaison and support units between the Centre and the Economic Commissions for Africa, for Europe, for Latin America, for Western Asia and the Economic and Social Commission for Asia and the Pacific have been formed. These joint units will act as the focal points for the activities of the Centre in each

region, and will in general assist the work of the Centre in each of its functions: information analysis, policy analysis and technical assistance. The joint units are primarily responsible for conducting studies and analysis on economic, social and institutional issues on transnational corporations involved in the particular region.

Aspects which have received attention

The idea of a code of conduct relating to TNCs was put forward by various individuals, organizations or governments, but it was the Group of Eminent Persons who first officially promoted the idea. As pointed out earlier, when the Commission on Transnational Corporations was formed, the preparation of a code of conduct was included in its terms of reference. Already at the first meeting of the Commission diverging points of view in this regard became apparent. Developing countries maintained that the code should be mandatory and cover only the activities of TNCs. The socialist countries of eastern Europe supported a mandatory code covering privately owned transnational corporations. The major developed countries, on the other hand, were in favour of a voluntary code addressed to both governments and corporations. There was also another view, namely that the code should be addressed to corporations and cover their behaviour, but governments, in a different text, should make a declaration of general principles which they would follow in their dealings with transnational corporations. The issue was again debated at the second session of the Commission, and again the views failed to converge. During this session an Intergovernmental Working Group, composed of at least four members from each regional group, was established and requested to prepare a draft of a code, and to work out not only the substance of a code but also suggestions regarding its legal nature, the extent of its coverage, the parties to be addressed and its machinery for implementation. In its work, this Group would consult with the 12-15 to be nominated from labour, business, public interest groups and universities who will be assisting the work of the Commission. To assist the Group, the Centre on Transnational Corporations in July 1976 published a background paper entitled "Issues involved in the formulation of a code of conduct", which was sent to all states to assist them in formulating their proposals on the subject and to regional meetings of developing countries to be held prior to the first meeting of the Group. This paper highlighted some of the issues that confronted the Group: "The decisions to be made regarding a code relate first to the actors to be covered, that is, whether the code should deal solely with the behaviour of transnational corporations or should also cover the principles of government policies. Second, to the approach - whether an attempt should be made to achieve maximum regulation, which would involve a mandatory code, specific provisions and international implementation, or minimum, namely a voluntary code, generally formulated and nationally implemented, or something in between. A decision on the approach will also affect decisions regarding the code's legal nature, that is whether it will be a binding instrument (convention), a declaration of governments or a resolution of a United Nations organ. Finally, decisions will have to be made regarding the code's comprehensiveness, that is the issues to be covered. These decisions are interdependent, and will need to take into account the purposes that a code seeks to accomplish and the limitations inherent in the device."

At the second session of the Commission on Transnational Corporations in Lima in 1976, a proposal was made to establish a working group for the purpose of negotiating a multilateral agreement on corrupt practices. It was, however,

decided to refer the matter to the Economic and Social Council. This Council requested an Ad Hoc Intergovernmental Working Group consisting of 18 government members to conduct an examination of the problem of corrupt practices, in particular bribery, in international commercial transactions by transnational and other corporations, their intermediaries and others involved. This Working Group was further requested to elaborate in detail the scope and contents of an international agreement to prevent and eliminate illicit payments, in whatever form, in connection with international commercial transactions. The Centre on Transnational Corporations was requested to prepare a decision-oriented paper on the issues involved and the possible options in time for this next meeting.

One of the obstacles to the proper understanding of transnational corporations is the lack of comparable information concerning their activities. The setting of international standards of accounting and reporting for these corporations is thus an important goal of the work of the Commission and the Centre on Transnational Corporations. A high level group of 16 experts was appointed by the Secretary-General to make practical recommendations towards this end.

The first session of the Group took place in Geneva from 30 August to 10 September 1976. To assist the Group, the Centre on Transnational Corporations prepared three papers. The first paper, "Towards international standards of accounting and reporting for transnational corporations" reviewed the main issues and indicated possible approaches. The second paper, "International standards of accounting and reporting" examined current practices and described the efforts being made to achieve standardization. The third paper covered some aspects of corporate accounting and reporting of special interest to developing host countries. While the Group of Experts was able to arrive at a consensus at its first session on a number of specific issues, the Group nevertheless emphasized the provisional character of its recommendations which were to be subjected to further scrutiny and consideration at the sessions to follow.

Conclusion

In the 1960s, research on TNCs had been a province of management-oriented United States scholars of international business. The awareness of the importance TNCs have acquired crystallized in the United States in 1971/72 when questions were raised about whether transnationals were exporting jobs from that country and thereby contributing to the deteriorating balance of payments position. As a result, TNCs became the object of widespread public discussion, which in turn led to extra intensive governmental and non-governmental studies of the activities of these enterprises. Public interest was further sharpened when in May 1972, the United States Senate Foreign Relations Committee voted to conduct an investigation into the activities of the ITT in Chile and, going beyond one particular case, to undertake a broad examination of the general role and impact of transnational corporations. The same incident led to the adoption on 28 July 1972 of the resolution which established the Group of Eminent Persons.

While the pre-1970 research had been conducted almost exclusively in the United States, national governmental institutions, the business community, labour unions and public interest groups now began to conduct and to sponsor research. International organizations that became involved included the United Nations Centre on Transnational Corporations and the United Nations regional

commissions, as well as UNCTAD, UNESCO and the ILO, and the most notable among the regional organizations are the Andean Common Market, the EEC and the OECD. Amongst academics, students of international business have remained the largest group of researchers - the thrust of their research had continued to emphasize questions related to the management of transnational corporations. But scholars from other disciplines have "discovered" TNCs as well. Political scientists for example, have recognised that TNCs are important value distributing agents whose activities have direct and indirect consequences for national and international decision-making and relationships among states. As a result of this development, multidisciplinary efforts are now being made, reaching far beyond the academic world, to understand transnational corporations and their activities.

Latest documents referred to the Commission

The following selected documents were submitted to the Commission on Transnational Corporations' Fifth Session convened in May 1979:

- "International Standards of Accounting and Reporting" (ECOSOC Document E/C10/48), March 19, 1979;
- "Transnational Corporations in Advertising: A Summary" (ECOSOC Document E/C10/54), April 13, 1979;
- "Supplementary Material on the Issue of Defining Transnational Corporations" (ECOSOC Document E/C10/58), March 23, 1979.