

“New” Directions for Private Resource Transfers

The traditional contrast has been between, on the one hand, a package of resources in the form of 100 percent equity investment by the parent company and continuing full control of the firm, and, on the other hand, arm's length market transactions between entirely independent agents, where control completely ceases at the point of transfer.

Since the 1960's and 1970's there has been a growing tendency to add to these two traditional forms other arrangements. Ownership has been diluted, so that it can vary between zero and 100 per cent. Control can be shared to varying degrees. The forms of control can be confined to specified areas. And these arrangements may be changing, in a previously agreed manner, over time. Sometimes these are called “new forms of foreign investment”. They have been most in evidence in the petroleum and metals industries, but also in manufacturing, particularly for host country markets and in industries with mature technologies. But there is considerable variation in the experience of different countries and sectors.¹ In fact, these “new forms of direct investment” are neither new, nor in the strictest sense investment. But they have become more frequent in the seventies, and they have, to some extent, replaced more traditional forms of investment. Among them are the following:

1. Licensing agreements
2. Joint ventures
3. Turnkey projects
4. Sub-contracting (without equity participation)
5. Management contracts
6. Marketing contracts

¹ See G.K. HELLEINER “Direct Foreign Investment and Manufacturing for Exports: A Review of the Issues”. Mimeo, 1984.

7. Technical assistance contracts
8. Franchising
9. Capitalisation of technology, giving equity participation to the owner of the technology
10. Phasing-out agreements
11. Trilateral cooperation or tripartite industrial cooperation
12. Counter-trade (various forms of barter-type arrangements between foreign trade organization or private firms)
13. Durable links requiring that a firm market the production of another firm in a foreign country as in some buy-back arrangements
14. Leasing agreements.

From the earliest days of direct private foreign investment, the question has been raised whether a host country might not gain from "unbundling" the package of capital, technology, management and access to markets that the TNC (Transnational Corporation) brings with it. It was thought that to buy the components of the package separately would be cheaper, would reduce foreign control, would avoid restrictions by the TNC such as those on local dissemination or use for export, and would make for greater adaptability to local conditions. The "new" forms are partly an application of the unbundling technique that resulted from stronger bargaining power of the host countries, greater availability of capital, and of alternative supplies of technology and management. But the trend is partly independent of host country policies and due to changes in organization and business practices relating to technology transfer, risk-sharing and management. There is a tendency for the TNC producing enterprise to concentrate on the provision of technology, some aspects of management, and access to international markets. The international financial institutions, both private and multilateral, are tending to control the financial aspects of foreign investment, and the host countries retain ownership of assets and some managerial tasks, such as labour relations.

The "new forms" cannot be fully understood as simply arm's length sales of goods or services that are part of the old package — a whole factory in the case of a turnkey project, technology in the case of a licence, or management for a management contract — but imply a component that forms part of investment, *i.e.* the creation of assets, and

a degree of continuing control. It is for this reason that we lump these "new" forms together under a single heading rather than regard them simply as ordinary sales and purchases. One of the most important and controversial components of the package is technology.

For an analysis of the most effective way of transferring the benefits of science and technology to developing countries we must ask ourselves whether the knowledge is transferable from one country to another, or whether it is tied to a particular place. Where knowledge is transferable, we must ask how best it can be transferred, and to what extent different methods of transfer are substitutes or complementary. If they are substitutes, the question is whether transfer is most effectively carried out through local wholly foreign owned subsidiaries of TNCs, or through imports, or through licences, joint ventures, collaboration agreements, sub-contracting, or through hiring experts, or whether it is not better to rely solely on indigenous scientific and technological capability, by training students at home (or possibly sending them to be trained abroad), in order to build up indigenous institutions and know-how later. But to some degree indigenous capability and import of technology are complementary and the question is what are the best combinations and the appropriate phasing. They are complementary for at least four reasons. First, indigenous technological capability is necessary in order to use and maintain the transferred technology. Secondly, it is necessary in order to adapt it to local conditions: factor availabilities, scale, climate and culture. Thirdly, it is necessary in order to enlarge productive capacity in a growing market. And, fourthly, it is necessary in order to get better terms for its purchase. The ignorant buyer is liable to have to pay a higher price. In addition, indigenous capability may be desirable for innovation, where the transfer or adaptation of imported technology is unsuitable.

In order to clarify the questions about the best mode of acquiring the technology, preliminary questions about technical know-how of the following kind have to be answered:

1) Is the knowledge physically transferable or is it tied to a particular locality?

2) Is the knowledge freely available or do patents or other property rights impose a cost on those wishing to acquire it? If there are such costs, how can the bargaining power of the host country be strengthened so as to acquire the knowledge on the best terms?

3) Is the knowledge of the process or product fairly stable or is it rapidly changing?

4) Is the knowledge separable from other activities of the firm, such as using sources of supply or seeking market outlets, or is it inextricably tied up, through feedbacks and "feed-forwards", with knowledge or information drawn from these other activities? Is it, in other words, an integral part of the whole system or of parts of the system of the firm's organisation and activities?

The answers to these questions will determine the most effective form and institutions of acquiring the knowledge. Thus, if the knowledge is transferable, free and separable, the solution is to look it up in books or articles. If property rights are attached to it, it may have to be bought. But the terms of the purchase will be partly determined by the extent of knowledge of the purchaser as to what he is purchasing, and to that extent transfer of technology and indigenous capacity are complementary. If the knowledge is rapidly advancing or integrally linked to other activities, inviting the TNC may be the answer. The terms and conditions of this invitation are determined by many factors.

A good deal of technology is freely available, though even then "absorptive capacity" is required in the sense that there must be people willing and able to understand and apply the knowledge. Without a receptive indigenous technology capability and a social structure adapted to receiving its fruits, even freely available and communicated knowledge remains unused or wasted.

There is no hard and fast line between knowledge that is freely available and knowledge that is tied to individuals or institutions. Like a cooking recipe, anyone can look it up (if he knows that it is worth looking and where to look), but everyone is not an equally good cook. "Knowing that" is different from "knowing how".

In order to understand the growing trend of "new forms" and in order to formulate proposals for future directions, it is useful to identify certain factors that help to explain those new and growing forms of resource transfer.

The TNC has three types of advantages over rival firms: ownership specific advantages; location-specific advantages; and internalisation advantages. The *ownership specific advantages* must be sufficiently great to exceed the advantages of the indigenous firm in the form of knowledge, access to, and command over the total environment. These fall into two groups: those that can be separately sold, such as patents, trade marks, management skills, etc., without diminishing the availa-

bility of the advantage of these assets to the firm; and those that are inherent in the operations of the firm, such as economies of scale and integration, diversification of processes and products, division of labour and specialisation, feed-backs and feed-forwards between markets and innovation, superior R&D capacity that yields a flow of innovations, economies of joint supply in purchasing, marketing, finance, organisation, etc. The second type of advantage is such that its yield to the firm is greater if it is part and parcel of the body of activities of the firm, and therefore either cannot, or can only at a loss, be sold separately. Any specific advantage may change its nature over time, according to the state of technology, competitive pressures, government regulations, changing ability to protect monopoly positions, etc.

Location-specific advantages determine where to produce. They are influenced by the prices, quality and productivity of such inputs as labour, energy, materials, component parts and semi-finished products; by tariffs and non-tariff barriers to trade, by transport and communication costs, by government interventions, by the investment climate and by non-governmental sectors in the host country that influence the profitability of investment.

Internalisation advantages determine whether it is best to set up a wholly owned subsidiary or to enter contractual arrangements by which the advantages enjoyed by the firm are transferred externally. Such contractual arrangements presuppose that the assets are marketable and transferable in space. It is largely changes in the assessment of the benefits and costs of this type of advantage that have determined the growing trend of alternative arrangements to that of the wholly owned subsidiary or of arm's length transactions.

In deciding upon which kind of transfer to adopt the firm will be influenced by three types of consideration. First, there are the differential costs of the transactions: searching for buyers and sellers, negotiating the contract and monitoring the results. Second, there are the benefits from the different modes of transfer. A new and sophisticated technical process, subject to continual change, and influenced by feed-backs from market reports and feed-forwards from the sources of supply is likely to be more profitably exploited through internal than through external transfers. On the other hand, a fairly routine process, likely to last a long time, fairly independent of information from marketing and production, is separable and marketable at a profit. Third, there are considerations of market failure, where uncertainty or ignorance prevail, that lead to the desire to internalise transactions.

In the light of these classifications, it is possible to explain the above noted recent trends. Ownership advantages of dominant US firms have been diffused as the result of the growth of rival firms in Europe, Japan, and increasingly in the more industrialised of the developing countries themselves. As one would expect, greater competition has reduced the rents to be earned from internalizing these advantages. In addition, indigenous firms have acquired increasing knowledge and skills, in the process of learning by doing (and sometimes of learning by doing without) and through better education and training. It has also been argued that the main advantages of the more recent, smaller TNCs are of the marketable type rather than of that which is best internalised. Since the proportion of these new TNCs has increased, the new forms have increased with them. The spread of technical knowledge and the spread of companies meant that the *relative* role of size and highly sophisticated technology has been reduced in favour of a greater proportion of assets that lend themselves to marketable transfers. The acquisition of these assets was helped by the growth of the international capital market, the resurgence of bond markets, and new sources of finance, such as the Arab capital surplus countries, and later Japan, whose financial surpluses have been channelled through private banks. There were also new and additional sources of technology (e.g. from the Soviet Union). Moreover, the bargaining power of developing countries has increased and, since they often have objections to wholly foreign owned subsidiaries, they have been able to impose other forms and arrangements. Governments often prohibit wholly owned foreign subsidiaries, unless certain conditions are met, such as high technology or exports. At the same time, the foreign companies can reduce their risks, both political and economic, by reducing their equity participation.

There have also been changes in the locational advantages. The slower growth rates of the developed countries, the threat of protectionism and the growing debt burden have led to a desire to save foreign exchange by substituting domestic production for imports. The new forms of contractual arrangements are then an alternative.

It is therefore the combination of government policies and the wider diffusion of ownership among many nations, together with the changing type of ownership-specific advantages that has dominated over the opposite tendency of internalising the advantages of advances in organisation, communication, research and transport, brought about by the revolutions in computers and electronics, facilitating internal communications and knowledge accumulation.

None of this begins to answer the crucial question whether the new forms enable host countries to steer TNC activities in the direction desired by them, or declared to be desired by them, or whether they have not enabled TNCs to extract by these new arrangements much the same as or even higher monopoly rents than those that they previously derived from wholly owned subsidiaries, while reducing their capital contribution and risk exposure. Or it could be the case that, though the TNC loses from the host government imposed solution, the host government itself gains little. Assume, for example, that the TNC accepts the arrangement reluctantly as an alternative to the threat of expropriation. But the host government, objecting to excessively high profits earned and wishing to share in them, loses by reduced commitment on the part of the management of the firm to its activities. The firm not only shares profits but also control and management, and local decisions are less efficient as a result. In such a situation it would have been better for both parties to reduce the level of perceived risk. Less fear of expropriation or of restrictions on repatriation would reduce the required rate of return for the TNC, and a lower rate of return would reduce the objections of the host government. Mutually agreed ways of risk reduction would yield positive benefits to both sides, whereas the "new" form would, on these assumptions, lead to losses on both sides.

It is possible to analyse the new forms of resource transfer in four ways, the first of which implies positive sum games, the next two zero-sum games, and the fourth negative-sum games. The four interpretations have different implications for the answers to three questions. First, have total production and productivity increased or have the new forms made other contributions to policy objectives? Second, what has been the change in the division of gains from whatever profits there are? Third, has the transfer of ownership to host countries implied in the new forms been accompanied by a corresponding change in control, or has control been maintained by the TNCs in a different form?

The first interpretation is that before the new forms were widespread, the suspicion and the political fears of the TNCs led to high expected rates of return, so that the investment "paid for itself" within a short period. These high required rates of return, however, led to distrust on the part of the host developing country and to precisely those actions, against which the high rates were intended as insurance. The host country felt that the company was "taking out of the country more than it was putting in", and expropriated the assets, or restricted repatriation of capital and profits. In this atmosphere of mutual

suspicion and fear, the net contribution to development of the TNC was small, but average profits, taking high profits and losses together, were also relatively small and insecure. The new forms contributed to what amounts to mutual disarmament. Being given greater security, the TNC lowered its requirements and took a longer time horizon; the host country reduced its hostile actions and was more welcoming to the TNC. More TNC activity has now become possible, extending into new industries, sectors and regimes, that had previously not been open to TNCs. The result was mutual benefits.

The mutual benefit would be reinforced if the transfer of a degree of control from the TNC to the host government benefited both sides. The TNC would maintain control over the variables of greatest interest to it, while the host government would take on, *e.g.*, labour relations and thereby reduce frictions. The fundamental question then is whether the new forms enable production and productivity of the resources transferred to be raised, and the increase to be divided between host country and TNC.

If total returns on the assets are raised as a result of the new forms, the division of gains still remains to be determined. It is likely that this will not follow formal lines, such as the proportion of ownership (*e.g.* 49 percent of the TNC), but will occur according to the distribution of knowledge and bargaining power.

An alternative interpretation is less optimistic. It maintains that the bargaining power of developing host countries has increased with improved knowledge, negotiating skills and greater international competition among TNCs. As a result, a larger share of the gains from TNC operations accrues to the host country. By "unbundling the package", the host country has learned to buy its ingredients on more favourable terms and reduce monopolistic exploitation. Increased competition among TNCs and the entry of new ones, to which the new forms are more congenial, has also eroded monopoly profits. Not only has ownership shifted to the developing host countries, but control has moved with it. The country's gain is the corporation's loss.

This interpretation would be strengthened if it could be shown not only that the number of firms submitting to the new forms has increased, but also that smaller sized firms can benefit from them, thereby reducing the monopoly power of the large firms and raising the bargaining power of the host governments.

A third interpretation goes in the opposite direction. It argues that the share appropriated by the TNCs has not been reduced, because they

have learned to exploit their advantages in other ways than through 100 per cent or majority ownership. What they cannot get in the form of profits, they now get through fees, contractual agreements, administered purchase and sales prices, etc. In the case of joint ventures, transfer pricing of imported inputs enables them to raise their share in the profits above their share in the equity. Their sacrifice of ownership, control and profits is only apparent. Armand Hammer, chairman of Occidental Petroleum, claimed that after the required sale of 51 per cent of its Mexican subsidiary, the profit on the remaining 49 per cent was higher than the previous profit under full ownership.² Ownership has been sacrificed, but control and profits maintained through transactions between affiliates. In fact, their share in the division of gains is as great as it was before. If their attention is drawn to previously unexploited profit opportunities, or if markets grow, or if costs and risks are reduced, it can even be greater. In particular, the risks of nationalization and labour troubles can be reduced by sacrificing ownership.

Consider a chain of production, processing and marketing from primary products to final sales. At each stage a set of activities contributes to the process: know-how, capital, management, etc. Initially all stages and all activities are fully integrated into the wholly owned TNC. The host country then expropriates, say the production facilities. The firm retains control over those activities in which the barriers to entry are highest and its monopoly power is greatest. The expropriation by the host country will then have achieved little. Indeed, the host country may be worse off if it now has to shoulder risks on the side of production or fluctuations in demand, while the TNC reaps more stable, more secure, and higher profits from the retained activities such as marketing and management.

Testimony to this possibility is the following quotation:

"American policy should take unbundling one step further. It should abandon entirely the idea of direct ownership...and encourage the provision of production and marketing skills through service or management contracts...such contracts, because they offer a highly leveraged return on corporate assets, can be extraordinarily lucrative."³

² *New York Times*, op. ed. page, January 5 1981, quoted in JAN SVEJNAR and STEPHEN C. SMITH, "The Economics of Joint Ventures in Less Developed Countries", *Quarterly Journal of Economics*.

³ C. FRED BERGSTEN, THOMAS HORST and THEODORE H. MORAN, *American Multinationals and American Interests*, (Washington, 1978) p. 160.

The growth of small and medium sized firms could be made consistent with this interpretation, if it were thought that the large oligopolies raised unit costs by advertising, marketing efforts and R and D to such an extent that it made possible, under the higher price floor, accommodation of smaller-sized firms.

Finally, as argued above, it could be that the host government gains little while the corporation loses, or vice versa. If technology is highly complementary to managerial skills, it is more profitable to sell technology in combination with managerial skills rather than separately through licensing. If then the firm is forced to sell the two separately, it will either try to recoup itself or the transfer will be less efficient. Its interest and commitment will be reduced, without any compensating benefit to the developing host country.

It could, of course, be that each of the four possibilities has been realized in different countries, under different conditions, at different times. In some cases, mutual accommodation has led to gains for both host country and company. In other cases, mutual suspicion has led to losses on both sides. In a third set of cases, host countries benefited at the expense of companies, and finally companies may have maintained or increased their gains at the expense of, or without benefit to, host countries. The outcome will depend on the following factors:

- 1) The amount of genuine competition among corporations. The greater the competition, the more likely it is that gains accrue to host countries.
- 2) The indigenous technological capability and technological infrastructure of the host country.
- 3) The bargaining power and negotiating skill of the host country, which is partly a function of 2).
- 4) The solidarity between potentially competing host countries for the purchase of the TNC assets.
- 5) The size and the rate of growth of the market. The larger the market or the faster it grows, the more useful it will be to the host country to develop its own technological investment capacity in expanding and erecting new plant.
- 6) The fact whether there is a glut or a shortage in the supply of the product. If there is a glut, marketing overseas becomes more important and the host country depends more on the TNC; if there is a

shortage, the bargaining power of the host country increases. (This is illustrated by the history of the oil companies.)

An important conclusion of this discussion is that once host countries have become aware of the fact that the form the transfer takes is relatively irrelevant (*i.e.* 100 per cent ownership or contractual arrangements), they will shift emphasis to the conditions attached to the transfer.

In a more detailed analysis, clearer distinctions would have to be drawn between interest groups and alignments. It would then be possible for one group, represented in the government of the host country to have interests similar to those of the TNC, but not identical with those of the masses in the developing host country. This possibility is indicated in the following passage.

"... in a world where multinational corporations are global oligopolies exercising substantial discretion in the conduct of international activities, bargaining by an individual state to get these corporations to serve its goals may not involve any economic losses to the state; the result may simply be collusion, active or tacit, between host governments and firms, their disagreement limited to how to divide up the spoils".⁴

Although the authors do not say at whose expense the collusion takes place, it is possible that ownership, control and profits are shared between a small power elite in the developing host country and the TNC, without any substantial contribution to greater equity, poverty eradication, or basic needs. At the same time, local power elites are hardly ever monolithic in their composition or interests, and the new forms may make these groups receptive to new pressures that make them more amenable to meeting domestic objectives.

The collusion need not be between the official negotiators and the rest of the country. A private firm in the host country may purchase the asset (say, the brand name) of a foreign monopoly, at a substantial cost, in order to exploit it in the home market. Foreign corporation and domestic monopoly are then the gainers, the consumers in the host country the losers.

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⁴ BERGSTEN *et al.*, *op. cit.*, p. 332.

As the TNC has become one of the main vehicles of transferring modern, complex and changing technology from developed to developing countries, an important aspect of policy is the terms on which the technology is transferred. In settling the bargain and in drawing up the contract, a large number of items may be for negotiation. Some of these may refer to incentives such as protecting the market for the product or improving the attractiveness of inputs (infrastructure, public utilities, a disciplined labour force, absence of red tape); others may lay down conditions for sharing the benefits with the host country, such as tax provisions, the use of local materials, local participation in management, training workers, creating jobs, raising exports, etc.; others again will relate to policies such as conditions about repatriation of capital and profits, about raising local capital, etc. In this manner the consequences of the activities of the TNC can be tilted in the direction of achieving the host country's policy objectives, such as growth with equity. Perhaps the most obvious instance is where the TNC itself makes no contribution to these objectives, but the tax revenue collected by the government is used, *e.g.*, for financing labour-intensive rural public works, which improve the position of the rural poor. There are many other possibilities, such as asking the company to devote some of its profits to train local labour, so that employment and earning opportunities in other occupations are improved.

In order to achieve such gains, skilled and informed bargaining is necessary. Hitherto, multilateral technical assistance in negotiations of this type and in training negotiators, has been on a relatively small scale, though often very effective. International organizations could render vital technical assistance in strengthening the bargaining power of LDCs in negotiating such contracts and contribute to an informed dialogue between managers of TNCs and public officials through training courses. What is needed is both direct technical assistance in drawing up contracts, possibly with the aid of a set of model contracts, and indirect aid through training, the provision of information, and encouragement of solidarity among developing countries, to avoid competitive tax and other concessions.

Another important area of policy is the imaginative exploration of new legal and business institutions which combine the considerable merits of the transnational corporation with the maximum beneficial impact on national policy objectives. This area comprises joint ventures, *i.e.*, joint both between private and public capital and between domestic and foreign capital, which go further than window dressing by giving

the developing host country access to information and decision making, and various provisions for divestment and gradual, agreed transfer of ownership and management from foreigners to the host country. Thus, countries wishing to curb the power of large groups in their manufacturing sector may find investment reduced. This may make it advisable to institute a "joint sector" in which public capital is combined with private national management with or without an equity stake, or public capital is combined with private international capital. Another possibility would be a management contract with a national or international investor.

Thought and action in this area have suffered from a poverty of the institutional imagination which has lagged behind the advance of the scientific and technological imagination, and the global vision of transnational firms. Discussions have turned partly on the ideological dispute between private and public enterprise. Yet the real issues have little to do with ownership. Mixed companies can be devised that simultaneously harness private energy and initiative, yet are accountable to the public and carry out a social mandate, on the model of the British Commonwealth Development Corporation. Equally arid has been the dispute over the virtues and vices of private foreign investment. Here again, the task should be to identify the positive contributions of foreign firms and the social costs they impose on the host country, to see how the former can be maximized or the latter minimized, and to provide for gradual, agreed transfer to national or regional ownership and management. There is a need for a legal and institutional framework in which social objectives that are not normally part of the firm's objectives can be achieved, while giving the firm an opportunity to earn profits by contributing efficient management, marketing and technology.

An anti-poverty approach to development should explore the opportunities for a changed direction of the activities of TNCs. Such an approach would enlarge the scope for intra-Third World trade and investment. New types of TNCs, located in developing countries, have already emerged and should be encouraged. They might be smaller and more competitive. They might produce the simpler wage goods and services required by meeting basic needs, employ more labour-intensive technologies, and draw more on local materials. They might make more use of local sub-contracting, thereby encouraging local powers of adaptation. They have accepted increasingly host country conditions in the form of joint ventures, greater participation of local personnel and even minority share holdings. It might well be that their considerable

flexibility will enable them to define a place for themselves in an anti-poverty approach to development.

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The TNC clearly has an important part to play in assisting the progress of the developing countries. At the same time a number of obstacles now stand in the way of its greater participation in the development process. New institutions and new procedures are needed to overcome these obstacles.

The obstacles are partly practical, arising from the difficulties of operating in countries with shortages of skilled manpower and basic utilities, and partly political. The latter include the sometimes ambivalent attitudes of the governments of developing countries and the resulting political risks faced by the TNC. The reluctance to welcome whole-heartedly TNCs has itself a number of causes. First, there is the fear, whether justified or not, that it may exploit its market power and deprive the country of valuable resources in general, and, through remittance of profits abroad, aggravate balance of payments difficulties. Second, there is the fear that the enterprise will form a foreign enclave, whose activities will not benefit and may harm the rest of the economy. Third, political fears of foreign domination or interference may add fuel to economic fears of exploitation.

But foreign enterprise has the capacity of bestowing great benefits on the economy of the host country. It can combine the provision of capital, of a team of skilled men and access to markets; it can transmit rapidly the latest products and technology to the host country; it can encourage the growth of a number of ancillary domestic enterprises; and it can reduce the economy's dependence on imports and increase its capacity to export.

The international community could help by investigating ways in which the fears of both overseas governments and private firms can be allayed and the advantages maximised. This could be done by devising a form of joint enterprise through which finance, skilled manpower and training are provided in a way which is acceptable to the host governments and which carries sufficient profit to be attractive to the foreign firms.

One way of achieving this would be for a private firm to establish a joint enterprise with a local government or a government agency, such as a local development corporation. The foreign firm should put up not

more than 49% of the capital, but enough to benefit when the enterprise succeeds, and of course suffer if it fails. It should have a substantial minority interest, while the local government has the dominant interest.

Such a holding would often be sufficient to secure a decisive role in management. But it might be possible to arrange in special circumstances that, in the initial phase, the foreign investor should hold a higher percentage of the equity, as long as the arrangement for eventual transfer to local ownership is clearly stated.

The foreign firm might also provide some of the money on a fixed interest basis or in the form of preference shares.

The equity interest of the foreign firm would be bought out by the local government at the end of a suitable pre-arranged period. This period could be ten years, with provision each year after say 7 years to extend for a further 5 years up to say 15 years, or longer in the case of *e.g.* plantation enterprises. Various other forms of "rolling" continuation could be devised, such as a possible extension of another 5 years, etc. Alternatively, the period could be longer, but there could be options at fixed points when either the local government could buy out or the firm sell out.

Managerial and technical staff would initially be provided almost exclusively by the foreign firm, perhaps under a management contract, but with the obligation to train local replacements within the specified period before buy-out. The rate of replacement could not be specified contractually, but the local government would be able to use its representation on the board to ensure that it went forward at a satisfactory pace.

Housing and community services should be provided by the local government or appropriate local statutory body set up for the purpose. In view of the relatively short period of ownership participation, the foreign firm's capital should be concentrated on productive activities.

The scheme would operate through a tripartite agreement between the parent government of the firm, the local government and the private firm concerned. The parent government and the local government would provide a guarantee against expropriation. The parent government (or the World Bank) might also provide aid funds in appropriate cases to enable the local government to finance its participation or, either directly or through one of the IFIs, to help finance housing or community services required for the project.

Procedures for assessing an appropriate value at the time of buy-out would have to be agreed upon in advance, as well as procedures for arbitration should disputes arise.

Most of the advantages of private enterprise are preserved. The foreign firm brings in capital, together with technology, market access and a team, possibly with local experience, and the overhead facilities and international experience which the firm can provide are thus made available.

At the same time the fears which local governments or public opinion may feel are removed. The opportunity for exploiting indefinitely a monopoly or oligopoly position no longer exists. The fear of foreign ownership and domination is removed.

The TNC, on the other hand, acquires a guarantee against expropriation, combined with the incentive to enjoy a share in the profits. Clearly it would still carry the commercial risks of failure, but political risks would be eliminated.

The buy-out arrangement after an agreed period releases capital and know-how. These very scarce resources can thus be used on a revolving basis for initiating and pioneering new ventures and are freed from maintaining a going concern, which can more easily be transferred to local shoulders. The "spread effects" of enterprise on the rest of the economy are thus increased.

The scheme would be particularly suitable for large-scale agricultural enterprises and for countries with a small entrepreneurial and managerial class. If new enterprises were successfully established, existing ones might also be converted into this type. Regimes committed to replacing foreign by domestic economic activity might, instead of expropriation, be persuaded to work for the transformation of foreign-owned enterprises into the new type of joint venture.

If such a scheme were to be accepted by the parent governments, it would be desirable to present it as a form of transfer which combines adaptability to different circumstances with sufficient concreteness to have an appeal. It would need to be announced with a good deal of publicity, after careful preparation and consultation with selected host governments and TNCs.

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