INDONESIA AND THE MULTINATIONAL CORPORATION : SOME OBSERVATIONS ON PUBLIC POLICY ISSUES FOR THE FUTURE *)

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I

The multinational corporation (MNC) can no longer be treated as a random external factor in public policy. This is true for advanced industrial as well as developing countries. The socialist countries too have increasingly come to feel the need to deal with the MNCs particularly in dealing with the development of sophisticated industries although the problems posed differ in detail. Accordingly, governments must begin to learn to deal effectively with these firms. But in so doing they must take into account the positive contributions these firms make to the countries involved while seeking for ways to alleviate the damaging aspects of the operations of these MNCs.

While it is understandable that governments wish to regulate the operations of these firms and seek for ways to make the operations of these firms conform as much as possible to the development plans of the governments, it is equally necessary for governments to readjust to the new reality. As entities MNCs are power centers of their own. Thus governments must develop ways not only to regulate them where appropriate, but also, more realistically, to negotiate with them. The coming decade of global interdependence makes it necessary that governments adjust to the need for constant negotiations not only with other governments but also with the MNCs. On the one hand, it seems quite reasonable to assume that the multinational corporations are here to stay although we are not sure precisely how they will develop in the future. They emerge as the outcome of a number of important interrelated factors reflecting technological, sociological and organizational evolution which since the major breakthroughs in the field of communications and data processing, have enabled their operations to be conducted in an increasingly more integrated and

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manageable ways and with far wider range of territorial and production span at an increasingly faster pace than were possible in the past. They are in other words the outcome of contemporary economic, technological, organizational and sociological developments.

On the other hand, the nation state too is here to stay. So far, it is the only existing social instrument available through which a society can regulate its daily affairs covering a wide spectrum of activities. As a unit of social aggregation, it will most likely remain for sometime to come as the focus of societal power, through which economic (and other societal) decisions converge and come to be expressed. To be sure, the autonomous and exclusive character of sovereignty as the operating principle of the nation-state's right to regulate all that happens within its jurisdiction becomes less operationally relevant in contemporary economic and social activities. The individual units of nation-states find themselves now operating in a system of interdependence. [1]) That in itself is not necessarily synonymous with the disappearance of the nation-state, though that may be true in a distant future. But then again it need not be. What is certain is that the manner in which nation-states interact in modern contemporary economic world is to be characterized by a constellation of relationships among a number of structures i.e. among nation-states and other loci of decision and power such as the multinational corporations, international organizations and probably other units such as large foundations, a more internationalized professional labor union etc. [2]) And within this constellation of relationships, the prevailing pattern of interactions is likely to be an escalated *tempo of continuous adjustments and negotiations.*

While nation-states have yet to achieve even a semblance of policy harmonization along a wide-range of economic issues for a variety of reasons, the multinational corporations individually have managed to operate on a single global strategy, each pursuing a policy of optimal world-wide operations, often going beyond the control of individual governments of

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1) As a notion, "interdependence" in this essay is made explicit as defined by Cooper not in terms of the degree of trade necessarily, but in terms of a wide range of "policy sensitivity" leading to the need for policy synchronizations without which domestic policy would be irrelevant or ineffective. See Richard N. Cooper, "Economic Interdependence and Foreign Policy in the Seventies", **World Politics**, (January, 1972), pp. 161-4. The strife for "sovereignty" might be reasonably modified to be a strife for maximum "autonomy" within a system.

2) A study has been made by a group of scholars from several branches of the social sciences on the emergence of new institutional and structural relations in transnational economic activities. See Louis T. Wells, Jr. "The Multinational Business Enterprise: What Kind of International Organization?", **International Organization** (Summer, 1971). The issue of that journal was devoted entirely to the subject.

the nation-state however powerful, and at times working at cross-purpose with the national economic policy of particular governments. The transnational character of the operations of these firms have been and will continue to be their normal framework of the activities. Accordingly, governments are increasingly more called. upon to pursue synchronized national policies across national boundaries so as to be able to take corrective measures to alleviate the disturbances which may emerge from decisions of the multinational corporations in pursuit of their own individual corporate strategies.

In the first place, the multinational corporations have become a policy problem for governments simply because of their sheer size. A number of comparisons have been made by many observers comparing roughly the size of annual products of economic entities, nation-states and MNCs. In a list of one hundred of these entities, MNCs rank quite well. General Motors ranks 23rd after a preceding list of major and medium sized industrial countries. [3])

Though their size have been the most striking feature which characterize these MNCs, there are more fundamental factors which differentiate these MNCs from previous foreign investment instruments. One writer, Raymond Vernon, defines the unique features of these firms. He defines multinational corporations as "a cluster of corporations of diverse nationality joined together by ties of common ownership and responsive to a common strategy". [4]) Vernon goes further to argue that the multinational corporation as he uses the term "comes very close to lacking a relevant precedent". [5]) and for the purpose of this paper, Vernon's definition is quite useful, Accordingly, it is the definition we shall use here.

Vernon argues that these MNCs are new phenomena when we consider them from a number of relevant observations :

1. It has been only recently (late 19th century) that nation-states have allov.ed businessmen to create corporations without limit as to their life duration or their size. And it is even more

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3) Lester R. Brown, **The Interdependence of Nations,** (Washington D.C., Overseas Development Council, 1972) ODC Development Paper No. I. pp. 14-15.

4) Raymond Vernon, "Economic Sovereignty at Bay", reprinted in Raymond Vernon, **The Economic and Political Consequences of Multinational Enterprise : An Anthology** (Boston, Division of Research, Graduate School of Business Administration, 1972), p. 8.

5) **Ibid.**

recently that corporations are allowed to own other corporations ;

2. Since the 1960's there appears to be a marked tendency toward a globalization of the strategy of these firms in which they no longer divide between "home operations" and "overseas operations". The title "international vice-president" began to disappear from the organizational structures of the MNCs, giving way to a more integrated global approach ;

3. The integrated "command structure" of the MNC, made possible for the first time in the 1960's enables these corporations to scan over the globe for sales opportunities, production sites, capital supplies and technical skills with greater ease and sophistication than was possible ten years ago. The effectiveness of the "command structure" has reduced if not eliminated the role of regional managers as the "local strong man" ; [6])

Moreover, the integrated nature of the MNC operations have made these firms special phenomena because :

1. Branches of MNCs, particularly in the sophisticated industries, have become so integrated in a whole process special to that firm that the extreme measure of nationalization is frequently not very appealing to the host-country because it serves only a limited punitive purpose ;

2. In the process of investing abroad, the MNC does not necessarily bring with it capital as its most important investment component but rather its specialized technology, management patents and other R & D "products". Capital, in fact, could as well be raised in the country where the MNC proposed to invest, in many instances.

For the developed industrial countries the problem raised by the operations of the multinational corporations seems to be controversial where it touches on the question of policy on the science-based or high technology

[6]) Ibid ; pp. 8 — 12.

industries. This seems particularly true of the French, known to be the most outspoken in their insistence to establish a European policy on investments on the development of science based-industries and the operations of U.S. multinationals in particular. But to varying degrees, the preoccupation is shared among other Europeans even if the remedy proposed may not be uniform. But increasingly, particularly with countries rich in resources, such as Canada and Australia, the question of the exploitation or raw materials and resources by the multinationals is beginning to present some problems.

For the developing countries, the question is more complicated still in that the need and desire to utilize the MNCs are great. But the problems posed are also greater than the ability of the LDCs to handle given their available administrative and policy instruments. In stages they must be made to adjust. Though some observers may argue that it is an inherent characteristic of developing countries to have unmanageable and ineffective public policy instruments, the success of OPEC countries to negotiate effectively with petroleum MNCs argues that it is not all that improbable for LDCs to create the appropriate machinery for negotiations and policy formulation. Where a number of LDCs can cooperate and work effectively together, the possibility of success is enhanced. In concrete terms, it may be appropriate for Indonesia to begin to seek for a harmonization in investment strategy involving the MNCs within the framework of ASEAN. In addition, Indonesia can seek for as close a harmonization policy as possible on matters involving minerals and resource policy with Australia ; and, harmonization of timber policy with Malaysia, the Philippines and New Zealand.

In general however, the immediate problems posed by the multinational corporations both in the developing countries and the industrialized countries center on :

- **pricing transfer** in which intracorporate purchases and transfers from one unit in a high-tax country to a low-tax country would be done so as to minimize the amount of taxes to be paid. In so far as this reduces the amount collected by one of more of the countries involved, it would constitute a loss of taxing opportunity for that country ;
- **currency hedging**, in which financial directors of the multinational corporations would hold liquid assets in different currencies on

behalf of their companies in such a way that these companies would profit from buying and selling currencies according to their price fluctuations, A number of monetary crises have been aggravated by such practices;

— **patent restrictions** and other restrictive business practices which frequently result in dividing markets along different units of a single corporation operating in different countries. The negative effect of this practice has been that for example, some Canadian subsidiaries of an American MNC would be precluded from ever exporting their products even if they are more efficient producers than their American counterparts because of the marketing strategies of these MNC's. This may be logical from the point of view of the MNC but a loss from the point of view of the Canadian economy;

— **conflict of location strategy**, in which a particular plant of an MNC in one country, though serving a particularly useful function from the point of view of the host-country, may no longer be optimal from the point of view of the global strategy of the MNC. In this instance, though it would be immensely sensible for the MNC to relocate, it would be highly objectionable from the point of view of the host-country.

It is to the mutual benefit of the MNCs and the governments to seek for ways to minimize the effects of these practices. In the absence of a generalized solution, individual governments must find their individual ways, though their effectiveness are likely to depend on the extent to which such policies could be harmonized with other countries.

It is to the search for a framework within which Indonesia can negotiate with the MNC (given some rough qualitative essessments of her future needs) that I wish to address my observations in this paper. I stress the need to search for this framework within the perspective of the scope of the coming multilateral trade negotiation which, as understood by many observers, is to cover a wide range of crucial topics on international economic relations. At some point in the next two years, after the September 1973

Tokyo meeting, the subject of the multinational corporation will surely be touched upon, even if a final grand design will probably not be formulated. At the very least however, LDCs must begin to assess their individual interest vis-a-vis MNCs and where cooperation among LDCs would be possible. It is important to have a picture as to how negotiations with MNCs might be conducted and what is the circumstance that might surround these negotiations. These question can be posed more realistically by assessing, even roughly, some possible Indonesian interest which can be kept in mind as a basis of negotiation. I propose that we view it from the perspective of :

1. Indonesian industrialization strategy which in some form or another must consider policies on :

   a). high technology capital intensive sectors.

   b). employment absorption.

   c). foreign exchange earning.

2. Problems of trade and access to markets of the developed countries for products manufactured in LDCs and how MNCs can help ;

3. Technological transfer and the role of MNCs in that process.

What preparations and which framework can be regarded as appropriate for Indonesia to obtain a favorable negotiating position in dealing with the MNC's if the above are the objectives ?

II

The Indonesian First Five Year Plan was devoted almost wholly to stabilization, to the rehabilitation of the country's delapidated infrastructure and to the revitalization of the agricultural sector. However, at some point in the future, a distinctly clear industrial policy will have to be formulated as well, and the coming Five Year Plan and beyond will be a period in which Indonesia can begin to formulate her industrial policy in increasingly more explicit trems.

Without going into the specific content of an industrialization strategy (which in any case is yet to be formulated), one can at least begin to try to synthesize a number of scattered thoughts into some coherent framework. Inescapably, as a starting point, there would be, sooner or later, a recognition that the demographic pressure will impose upon the country severe employment problems in the years to come. Where-as the greatest concentration of the population is in the agricultural sector, it is also the sector where the growth rate is likely to be relatively low. In so far as agricultural development alone is not likely to ease the problem of employment, the logic calls for a selected program of diversification and/or industrialization, either as an important and growing supplement, or even as an alternative. Accordingly, a decision must be taken in not too distant a future concerning precisely how industrialization is to be carried out and what are to be the industries which may be encouraged for the long-term.

And industrialization as a process implies at some point the option of allowing foreign investment to come in. How that process is to be regulated is a matter of policy choice and political decision. And foreign investment to a large measure is directly linked with the operations of the MNCs, though MNCs as a phenomenon in turn is not only a question of foreign investment as we have seen above. As Raymond Vernon stresses, some 80 percent of U.S. direct investments in developing countries comes from U.S. based multinational corporations.[7]) And since the largest holders of foreign direct investments happen to be American MNCs, the question of foreign investments is a question of dealing with multinational corporations. In Asia this reality is supplemented by the emergence of Japanese multinationals whose activities recently have also been noticeable. Thus for governments of LDCs, to negotiate on matters of foreign investments is to negotiate with MNCs, and only secondarily, (though still important) with their "home governments".

Thus although the exercise of formulating an industrialization strategy has not been completed in the case of Indonesia, it is imperative that the question of how to deal with MNCs be examined carefully as well. Accordingly, it is essential that an examination be attempted to seek for ways in which Indonesia might negotiate with the MNCs effectively. And to do so, it is essential to grasp the underlying features of MNC operations as well as their diverse characteristics, and how they might evolve in a changing international environment. It is for this purpose that a typology of their characteristics is useful.

And it is equally important to recognize that the wide range of agreements which might be reached between governments and MNCs require that a negotiating atmosphere be allowed to flourish. In this

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[7]) Raymond Vernon, **The Operations of Multinational United States Enterprises in Developing Countries: their Role in Trade and Development**, (New York, The United Nations, 1972) U.N. Document TD/B/399. UNCTAD. p. 1.

constellation of negotiations, MNCs and governments would understandably follow their own overall strategies. While MNCs increase their global outlook, nation-states will of course have to attempt to harmonize their policies among each other because purely national policies would become increasingly ineffectual. Moreover, the smaller the nation-state the more agile its negotiating capabilities have to be. In this respect, it is interresting to note that it is precisely in this game that MNCs have had more experience.

Table 1, indicates a probable stand of a number of participants or players in world economic decision regarding a number of important issues. This widening of the scope of the "game" permits nation-states to seek pay-offs and concessions on fields which may not have anything directly to do with a particular on-going negotiation. And so long as the nation-states think in strategic terms, particular decisions and negotiations can and must be placed within the global context of what the nation-state can extract in a series of negotiated settlements. In this constellation, it is not a surprise that in a given issue some governments will make alignment with one or more MNCs against another alliance between other governments and other MNCs. In turn some international organizations may also split into siding with one or another set of alliances in the negotiation.

More interestingly there will be cases where an MNC might side with foreign governments on the opposite side of its "home" government. In some instances, such as the case of the oil industry, this is indeed taking place, particularly in the "energy crisis", where producing countries and the MNCs have a mutual interest in keeping oil prices reasonably high and supply scarce in some instances. And it is noteworthy that the oil MNC's have been attacked for siding with the oil producing countries rather than with the oil consumer countries in the rich Western world.[8])

As for the OPEC member-states, given their seemingly favorable position it should be used, sparingly but wisely, to negotiate with the consuming countries on mutual accomodation and long-range agreements on industrial division of labor which in the long run might envisage easier entries for manufactured products of the LDCs to the consuming

[8]) M.A. Adelman, "Is the Oil Shortage Real? — Oil Companies as OPEC Tax-Collectors". **Foreign Policy** (Winter, 1972-3).

Table 1. **Possible Diversity of Position of States and MNC on Crucial Economic Issues.**

Issues \ Parties	EEC Commission	Individual EEC Government	U.S. Government	American MNC	Private European MNC	State MNC	LDC Government
Trade Policy							
Aid to Underdeveloped countries							
South Africa Investment							
Relation with The U.S.							
East-West Trade							
East-West Investment							
Environment Control							

Note: The table is deliberately left empty for illustrative purposes to indicate that positions can shift depending on particular issues. More importantly the alliance system will be composed of nation-states, MNC's international organization siding in one group in facing another set of nation-states, MNC's international organization and other structures which may be the opposing parties on particular issues.

countries.[9]) This presupposes that LDC governments take active interest in a wide range of international negotiations which in the past might be taking place in an uncoordinated manner but which must now be integrated in a flexible but clearly explicit strategy. It is also important to stress that the effort should not be left to the traditional diplomatic machinery which in most countries is singularly unequiped to handle this kind of activities. For the relevant state economic machineries (planning agencies, ministeries of finance, the central banks and trade ministries) in the LDCs, it is perhaps time to view the matter of direct investments and technological transfers in a more integrated format. Some systematization of negotiations with MNCs and with govenrments of the advanced countries can begin to be used as an exercise to seek for optimum policy at a given time. So long as the relations between MNCs and nation-states are not viewed as antithetical then the question of give-and-take is still very much the operating rule. Kindleberger suggest the uses of game theory to summarize options available to the "players" in a negotiation between MNCs and nation-states. Corporations have practiced this exercise for a long time. It is time that LDC governments begin to think in those terms as well. In fact a two-player non-zero-sum game can be used as a matter of policy exercise, as suggested by Kindleberger.[10])

The extent to which the nation-state in the less-developed world might be able to actually exercise its options might depend on the control it has of its own aparatus, but also, on the intimate knowledge of the workings of MNCs and of their "home governments" and the forces in the countries where the headquarter of these enterprises are located, countries which, incidentally, are also likely to be major aid donors — that is, the advanced industrial countries of great economic power.

But once a strategy is understood, there still remains the task to assure constant monitoring of the interests of the LDCs in the advanced industrial countries. Table 2 illustrates a sample of what must be known

[9]) Iran has been so far a pioneer in the effort to be engaged in "down-stream" investment. A joint-venture has been agreed upon between state-owned National Iranian Oil Co. and the Ashland Oil Co. in which Iran has a 50 percent interest in Ashland's New York refinery, petrochemical and service station operations. The company can later serve as the marketing unit for Iranian non-petroleum produces as well in some future diversification effort. See, Murrey Marder, "Iran, U.S. Oil Company sign 50-50, 'Well-to-Pump' Deal"., **International Herald Tribune**, (July, 26, 1973) and Marylyn Berger, "Iran, U.S. Oil Firms Sharing Seen as Patterns in Industry"., **International Herald Tribune**, (July 27, 1973).

[10]) C.P. Kindleberger, **American Business Abroad : Six Lectures on Direct Investment**, (New Haven, Yale University Press, 1969) pp. 150-1 and pp. 173-8.

Table 2. Transnational Decision and Some Power Locus in the American Economic Map.

Issues \ Sectors of Industry	Textile	Electronic	Aerospace	Petroleum	Agriculture
Foreign					
Foreign Aid					
Devaluation					
Monetary Reform					
Domestic Policy					

Note: The different sectors above have a different attitudes toward the issues cited. They are not equally vigorous or profitable. Some, like the electronics and aerospace industries, face a highly competitive market and high-cost R and D. The Petroleum Industry, in view of the "energy crisis"; is facing a seller's market. Textile and agriculture on the other hand are declining sectors facing social dislocation in some areas. Each of these sectors have their own political power. Developing countries wishing to negotiate on a number of issues must begin to pay more attention on the location of the powers of these sectors so that when an opposition comes from any of these sectors attemps can be made to dampen the effect by placating one or another sectors. MNC's are no stranger to such practices; nation-states must also learn to be as flexible.

in order to negotiate with the U.S. based MNC's and the U.S. government. Rightly, ministries of finance and central banks as well as trade ministries have representatives abroad to monitor changing external situations which may affect the home countries. Increasingly there is the need to internationalize policies and international organizations and also seek to harmonize policies of different countries toward a commonly accepted rules of the game, if not always successfully. The exercise in Table 2 can be expanded to Japanese-and European-based MNCs, as well.

III

To deal with the matter more concretely, let us examine the Indonesian situation in the light of the coming Multilateral Trade Negotiations (MTN) due to take place in Tokyo in September 1973 where major trade (and related) reforms are to be discussed on a global scale. To be sure, the economic and trading superpowers — the U.S., Japan, and the EEC — will first discuss, decide and agree among themselves as to what are to be the new rules of the game for trade and payments matters. That part of the decision will be essentially and necessarily a political decision. What will be agreed upon in Tokyo is either a general acceptance of trade expansion with its accompanying payments mechanisms which must be readjusted to new realities, or, a new mood of protectionism.

However, precisely because the details have not been explicity agreed upon by the major economic power centers, a great deal of alternative options can begin to be examined by LDCs in the course of seeking for an integrated policies on trade, industrialization, employment creation and technological adaptation in their development programming. The examination of these possible options could then be used as a preparation in the bargaining which will take place *after the generalized rules of the game are agreed upon.*

In the meantime, some careful thinking must be done as to how a country like Indonesia is to approach the beginning of a new era of international economic relations. If the climate after the Tokyo-MTN proves to be pessimistic, then as a minimum, Indonesia and ASEAN should at least seek to maintain existing access to markets for traditional exports of primary commodities even if the major economic powers among themselves will conduct a semblance of trade war. If, on the other hand, the climate proves to be optimistic, then Indonesia might pursue objectives centered on three distinct major sectors requiring three distinct but interrelated policies within a single framework on :

a). the extractive sector;
b). manufacturing;
c). traditional primary commodities.

The Extractive Sector.

The extractive sector will be an important sector for foreign investments though it will not be a sector with a high capacity for labor absorption. To the extent that the sector is an important foreign exchange earner which according to a tentative projection by the Department of Trade is expected to amount to 63.6 percent of total export by 1979, it should of course be encouraged. However, to the extent that this sector has been criticized as ineffective in dealing with employment problems, it is a source of embarrassment for the MNCs in the sector and for the government alike.

But the government can now begin to think in the long-term to ask the MNCs to begin to verticalize their operations so as to increase the value-added content of their product before leaving the country. To the extent that resource-based industries might be able to be created from the extractive sector, agreements with MNCs can be made explicit on the matter with specific time scheduling.

Since many of the raw materials exported are non-renewable resources, are-thinking must be done as to examine to what extent a more concerted producers association like OPEC might be created among several countries in which LDC governments could negotiate more equitably with powerful MNCs.[11]) To a certain extent, if used wisely, it could also be used as a negotiating instrument to obtain concessions in other matters.

Timber and its processing is one of the sectors where a more coherent policy will be needed in the future. A technical redefinition of the state enterprises however, may be required. While private initiatives should not be suppressed, whether they come from the domestic side or from abroad, nevertheless the state has a role to play in the sector. While there is no need to place the entire timber industry in the hand of a state corporation, given the importance of the sector as a new and substantial

11) Because of the particular position of petroleum in the world economy and of PERTAMINA as the state petroleum company, Indonesia's position appears favorable both with regards to the consuming countries and the foreign oil companies. The "energy crisis", even if it may not be as alarming as some have argued it to be, has at least assured Indonesia oil, still the more favored because of its low sulphur content, a ready market at favorable prices. Moreover, the formula of production-sharing has placed PERTAMINA, to whom foreign companies are contractors, in a controlling position in oil matters.

foreign exchange earner, and given the scarcity of timber in the world, a judicious policy which optimizes between foreign exchange earnings, the stimulation of employment creation and value-added activities in the processing involved in an integrated forest based industries on the one hand and resource conservation on the other requires that the state sets out to outline a major line of operations not merely by setting-up regulations (which may be difficult to implement) but by actively engaging in the industry through its state corporation.

Though it is not the only solution to the problem of resource management, one version of the logic would call for the creation of a state enterprise in the formula of PERTAMINA with the foreign timber and forestry companies acting as contractors. To be sure the management will have to be shaped in a streamlined fashion which means that management contracts for some tasks will have to be arranged at the initial stages. The state corporation will have to be concerned with marketing and processing as well. At the policy level as well as for the purposes of marketing, a joint effort with other timber producing countries of ASEAN as well as with New Zealand is desirable and may be essential. Logically, an ASEAN-owned multinational corporation for forestry products may not be so far fetched.

Manufacturing.

To the extent that some degree of industrialization is necessary, even at this stage, to absorb excess labor from the agricultural sector, the country can become an area where less sophisticated and more labor-intensive industries move in from the more advanced countries. Alternatively, it could be the location of components of very sophisticated instruments which must be done in a labor-intensive way. Electronic components, which consist of parts which must be produced in a labor-intensive ways have come to Indonesia because of the availability of a low-wage trainable manpower pool.

In so far as this international division of labor may be expanded, it would encourage or force Indonesia to seek for more ventures where Indonesian-made components could be produced for the international market. To the extent that such a process continues, Indonesia could seek for ways to increase the pace of technological transfers. Jack Baranson in a number of articles has urged the LDCs to negotiate with the MNCs to increase the pace of technological transfer through several processes. In particular, LDCs could insist on a "downward engineering" so that production in the LDCs of plants owned by MNCs are not merely scaled downed versions of techniques practiced in the industrial countries, but rather, adaptations of production techniques to the level of technology prevailing in the country. [12]) In order for this process to be meaningfully systematic there must exist a conscious technological policy for development purposes. The fact that a new ministerial office has been created, that of the Minister of State for Research (encompassing Research and Technology) in Indonesia is a step in the right direction. Indeed as a matter of policy LDC governments need to begin to insist that R and D activities be done in the LDCs.

Traditional Primary Commodities.

As an exporter of traditional primary commodities, Indonesia along with other tropical countries (especially the ASEAN members) must begin to think in terms of a long-range and coordinated strategy. Because primary commodities are subject to price fluctuations and, some claim, a secular deterioration in terms of trade, a more active outlook for markets is needed. To assure price stability and more aggressive search for markets, former Minister of Trade Prof. Sumitro Djojohadikusumo has attempted to device a more active system by creating joint-marketing companies abroad in cooperation with established commodity traders in the advanced countries to market Indonesian primary commodities. [13])

In the practice of commodity trade, it is interesting to note that the developing countries face the intervention of trading MNCs in a number of cases. In the field of coffee it was interesting to note that in 1972 Brazil, the leading coffee exporter, could not fulfill her quota because of a bad harvest. Rather than dividing the remaining quota, the Brazilians wanted to limit the allocation of unused quotas only among a select producer-countries known as the "Geneva Group" and keep the prices high. It was revealing that some MNCs with branches in Africa and in Brazil simply moved African coffee to Brazil and entered the coffee to the consuming countries as Brazilian product.

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12) Jack Baranson, "The Changing Role of MNC's in Technological Advancements of LDC's", **Atlanta Economic Review**, (September, 1972); "Technological Transfer and the Developing World: Conflict and Accomodation", paper presented to the International Conference on Asia and the Western Pacific: Canberra, April 16, 1973; "Technology Transfer Through the International Firm", **The American Economic Review**; (May, 1970) and "Diesel Engine Manufacturing: The-Automation in India and Japan", **Automation in Developing Countries**, (Geneva, ILO, 1972).

13) Sumitro Djojohadikusumo, **Kebijaksanaan di Bidang Ekonomi Perdagangan**, (Jakarta, Jajasan Penjuluh Penerangan Perdagangan, 1972) pp. 76 — 8.

For ASEAN countries, the time may come in the near future that its own MNC be created to safeguard access, to maintain quality and to stabilize prices in matters of commodity, backed by an effective regionally owned transport company. [14])

Thus as a matter of strategy Indonesia has three basic options :

1. the naive option to close all areas for foreign investments and thus avoid having anything directly to do with MNCs except to import selected commodities they manufacture ;
2. the equally extreme option to open the border for all operations with minimum government intervention. Even Canada has departed from such an option ;
3. the option for selective opening.

The first two options of either totally closing or totally opening the border to foreign investments have the beauty of simplicity. They require no government effort beyond the simple decision to permit all foreign investments or to prohibit them. No subsequent decision is needed and the state machinery is not required to direct policy. But the consequences are extreme as well.

The third option, that of selective opening may require more efforts on the part of the state machinery. But it places the locus of decision making in the hands of the government while benefiting from the operations of MNCs in the process of foreign investment. The price is that it requires the government, through its state machinery to take a more active interest in the process of investment and industrialization at all levels and stages. It has as its feature the need for governments to concentrate its attention on three problem areas.

First of all there is a need for a policy decision to exclude foreign investments from specific sectors while encouraging them in others. This of course cannot be done meaningfully unless there is an overall strategy. But when it is adopted then the task can be made more specific.

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[14]) For some clarification on several ideas of an ASEAN MNC, one which was particularly of interest to Prof. Sumitro, see Departemen Perdagangan, **Penjelasan Mengenai Pandangan Menteri Perdagangan Tentang Multinational Corporation** (Bangkok, Perwakilan Departemen Perdagangan RI, August 23, 1972).

Secondly, the sectors where foreign investments are excluded from operation should not in turn be left ignored. Where necessary, the state must begin to undertake active interests by way of creating ventures in the form of state corporations. While attempts should not be made to have the state take an exclusive control of everything, it seems inescapable that the state continuously seek for strategic leverage-points so that the direction of the economy can be guided along general lines without stifling the economy by excessive day to day administrative intervention. The state corporations, of which PERTAMINA is a prototype, can be made to serve as catalytic agents to direct an increasingly "mixed economy".

Timber for example, as mentioned above, can in the intermediate future of five to six years be allowed to evolve where the major but not the exlusive driving force would be a state corporation in the model of PERTAMINA to which new or even some existing holders of concessions would be contractors to the corporation in charge of integrated forest-based industries.

Thirdly, in the field of manufacturing and many of the services as well, national policy on investments of the multinational corporations ought not to be confined to examining joint-ventures and direct investments. A more imaginative arrangement could and should be sought where a whole spectrum of formulas to profit from joint efforts with the MNCs could be considered. The range of possibility for mutually beneficial arrangements includes not only the traditional formula of direct investments but more interestingly also licensing arrangements, management contracts, turnkey projects, as well as equity joint-ventures. This would ensure that a project in which MNCs are involved would not necessarily require the host country to accept packaged-deals which invariably are more expensive than the more selective policies. Moreover, by breaking the process into components the host countries could have an early assesment of future export possibilities derived from the investments of these corporations as well as a clearer view of the stages and extent to which technological and managerial transfers could be done in practice.

IV

Relations between governments and MNCs have evolved into a state of complexity which make it irrelevant and useless to think of in simplistic terms. Although it is tempting to argue either wholeheartedly against the MNC's in favor of economic nationalism or to argue the opposite, and wholeheartedly favor of the MNCs, dismissing national sovereignty as anachronism, the operating reality is more subtle. But one thing must be kept in mind. The operating reality of world political economy requires that governments take an increasingly more active interest in economic matters. That goes even for the most "liberal" and laissez-faire minded.

What is more, to an increasingly escalated degree, nation-states must coordinate and harmonize policies with other structures. It means that they must not only negotiate with other nation-states. They must also negotiate with structures other than nation-states – with MNCs, international organizations, large foundations and so on. All this, to governments of nation-states, is an escalated version of management. In order to be able to face the challenge of MNCs as outgrowths of a technological and management revolution -- in the face of a universe of economic imperfections, nation-states must partially face the challenge technologically and managerially as well.

In this environment, the nation-states must learn to be more agile in matters of negotiations. Where the MNCs exercise their decision-making activities by an increasingly more sophisticated multistrategy and multiplayer games of management, an equivalent exercise must begin to be formulated by planning agencies, ministries of finance, central banks, trade ministries. As to the substance of the challenge of the MNC, if as Perlmutter suggests, the non-communist trade activities will be dominated by 300 or so MNCs, 200 of which would be American, then governments of the LDCs must also begin to think as a possibility the creation of a few state owned multinational corporations or MNCs owned by regional groupings such as ASEAN but not neglecting that the domestic needs of most LDCs require different technical and economic considerations as well.

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