The Multinationals and Economic Development: The Changing Scene

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The process through which an industrialized country achieves increasing national income is referred to in Economics as belonging to the theory of *growth*; if it pertains to a less affluent and less industrialized country, it is called the theory of economic *development*. This terminology is odd, since both types of theory deal with much the same fundamental forces. Some justification of the current usage could, however, be offered because of contrasting emphasis in the two cases. Thus demographic matters play a greater role in the *development* of the less affluent nations than in the *growth* of income in the richer countries. Perhaps one could also catch a shade of difference in the two terms in that growth seems primarily quantitative, referring to the increase of *per capita* gross national product, whereas development includes not only that but also varying degrees of emphasis upon welfare matters, such as the distribution of income, literacy, public health, and structural change.

As its title indicates, this paper focuses upon change—past, present and prospective. From this angle the ideas associated with "development" are

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more relevant than with "growth" on both of the counts just now identified. Multinationals do two-thirds of their business with affiliates in the industrial world and only half that much with the non-industrial part. For this reason, "growth" might appear more appropriate, because of the industrial world's emphasis on *per capita* income. But change is the main theme, and "development" directs attention to the less developed Third World, where change is rife. In the second place, representatives of Third World countries continually emphasize that they set high values on national pride and independence, as well as upon numerous welfare dimensions not included in the bare statistic of national *per capita* income. Here again development carries the right connotation for this paper.

Our study begins appropriately with the greatest of all economic changes in the present generation.

I. The Third World Revolution

Objectives of this revolution are epitomized in the well-known charter endorsed by the General Assembly of the United Nations in December 1974, supported by 100 countries including two thirds of the world's population and opposed only by 6 industrial nations. These resolutions were in substance as follows:

1. Sovereignty over resources: This includes tighter regulations of multinational corporations (MNC's) and the right to nationalize foreign holdings—and to pay compensation according to *national law, regardless of international law governing such situations.*
2. Better terms of trade: to be enforced by producer cartels, to accelerate the economic development of poorer nations.
3. Greater financial aid: which would involve a redistribution of the world's wealth, to *reimburse the poorer nations for past exploitation.*

The mood of intransigence and sense of power on the part of the Third World revealed in these declarations go back to the nationalization of petroleum by Mexico in 1938, to the formation of OPEC in 1960, to Chile's appropriation of copper culminating with Allende, and to Peru's similar treatment of petroleum and sugar in 1970. The U.N. resolutions have

proven to be more than rhetoric. Algeria, Libya and Iraq require joint participation of domestic firms along with foreign firms in the oil industry, and other OPEC countries are phasing out foreign MNC's ownership rights in oil exploitation. Andean Pact countries (Bolivia, Chile, Columbia, Peru, Ecuador and Venezuela) require existing MNC's to sell majority stock holdings to local investors, and newly investing corporations must move into minority positions in 15-20 years in order to be eligible for Andean Pact trade concessions. More significant than these isolated instances are aggregate figures: nationalizations by developing countries doubled from an average of 45 a year during the sixties to 93 annually in the seventies.(1)

The portentous event lying behind the Third World consciousness of power is OPEC's quadrupling and quintupling of the price of Persian gulf oil beginning in 1973. This electrifying demonstration of power by an international cartel has been edifying to other producers of industrial raw materials, mostly lying in the Southern Hemisphere and generally (though not invariably) belonging to the Third World. In copper, Zaire, Zambia, Chile and Peru account for the bulk of production. In bauxite, Guyana, Surinam, Jamaica, Australia, Yugoslavia and Guinea could form a BAUPEC. Still more concentrated shares of world production exist in tin (Thailand, Malaya, and Bolivia); in nickel (Canada and Norway); in manganese (Brazil, Gabon, South Africa and Zaire); and in lead and zinc, principally Canada and Australia. All offer the possibility of cartels.

In addition to furnishing a possible model for other raw material cartels, OPEC has assumed the stance of a leader in the crusade for a "New International Order". It has contributed large sums—according to OPEC's own account some $2 billion—for economic development, reputedly for those poorer countries which suffer most from the higher cost of oil. Undoubtedly this economic aid—quite laudable in and of itself—has won friends not only among the recipient countries but also among some of the more affluent members of the Third World.

How far cartel organizations will spring up in raw materials beside petroleum cannot be predicted, nor can their potential efficacy be gauged.

(1) U.N. figures, cited by Gurney Breckenfeld in "Multinationals at Bay," *Saturday Review*, January 24, 1976, p.16.

Cartels have always suffered uncertainty because of the enormous gains which can be harvested if a member breaks away. It then would enjoy the double advantages of the high price along with freedom in expanding sales. There is furthermore the threat of retaliation to raw material cartels: industrial countries may themselves band together to withhold exports essential to a country's economic development, or even consumer goods including foodstuffs necessary for its very existence. Some industrial countries, including Canada, the United States and Australia form the backbone of certain world food supplies, a sobering thought if—against one's fervent hopes—the international economic scene came to be a battle of giant cartels.

What may occur within a raw material cartel is possibly foreshadowed by happenings in other ventures in pooling interests aimed at securing a large bargaining advantage. In Latin America, the Andean Pact of 1969 was designed to exploit the advantages of a large free-trade area among the Andean countries to force foreign MNC's to a divestiture program. But Chile disregarded the provisions of the Pact and subsequently withdrew. Columbia and Peru have appeared to make the most of the loopholes in the Pact. So far the agreements of this sort among developing countries have not prevented the MNC's from continuing to grow.(2) OPEC itself makes use of the foreign oil companies in the marketing and distribution of petroleum and its products.

In order to form a judgment of future developments, one must look carefully into the entire spectrum of change in the multinationals themselves and in government attitudes and policies concerning them.

II. Spontaneous Changes in the Multinationals

A rough dichotomy can be drawn between some changes which are primarily business decisions or market phenomena, treated in this section, and changes associated with governments (chiefly those of host countries), considered later. Of course this dichotomy is not completely clear cut, since many if not most business decisions are conditioned in some respects by government regulations and policies.

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(2) Raymond Vernon, "Storm over the Multinationals: Problems and Prospects," *Foreign Affairs*, Vol. 55, No. 2, January 1977, pp.243-263.

1. Untying the Economic Package

The classical prototype of the multinational form involves four economic flows through overseas affiliates: production, the services of capital, technology, and business management. (The flow of production enters the gross national product of the host country but is excluded statistically from its gross *domestic* product). What the host country receives in capital, technology and management are side effects of production. In the case of manufacturing industries producing for the local market, the entry and continued presence of the foreign MNC depends upon public acceptance of its output. Local competitors can cause foreign firms trouble but a strong local demand can override objections. Likewise, foreign MNC's manufacturing for export can gain acceptance because of the employment it offers, its payment of taxes, the foreign exchange it earns, and—in some cases—for the technology it introduces. In these cases, the four flows may be accepted as package.

With extractive industries drawing upon irreplaceable mineral resources, their persistence in the local scene is at least precarious because of the public and official conviction that the country is being robbed of its patrimony for the benefit of foreigners. Even in the case of manufacturing industry, the capital part of the four flows implying as it does ownership and control, involves delicate questions of national pride and prerogative. Fears of technological dependence also are frequently present. In many cases, a *modus vivendi* may be found in joint ventures and licensing, which untie the economic "package" of the classical multinational firm.

1) *Joint ventures* assume a variety of forms such as equity joint ventures, contractual joint contracts, licensing agreements, management contracts and turnkey projects. All of them involve some relinqishment of control exercised by ownership by the multinational corporations. Nearest to the classical MNC position is the equity joint venture, in which the foreign investor and a corporation based upon the host country share in the equity in a proportion agreeed upon in advance. This permits the foreigner even to own natural resources and to participate in management proportionally to ownership. It represents the most conventional type of sharing in international production.

Farther away from conventional capitalism, the contractual joint venture

requires that the ownership of a natural resource remain with the host country government or a separate corporate entity. Otherwise the foreign and the host country participants share in investments, risk and long-term development aims, without, however, the issue of stock shares, and without adopting partnership forms or a separate corporate designation.(3) In the past, examples were to be found in Liberian ore mining and in the ageement between the Italian AGIP and the National Iranian Oil Company; but now it seems destined to displace quite widely the equity joint venture especially in the exploitation of mineral resources.

Contrasting with the preceding two forms of joint venture, the two which follow are devoted exclusively to *services*. Licensing (also called *technical assistance*) was the device by which Japan maintained almost complete aloofness from Western business until very recently. But it sufficed as a basis upon which, given the frugality of the Japanese people,the disciplined character of its labor, and the alertness of its entrepreneurs to innovations, to fuel the rapid economic advance of Japan from the end of the war in 1945 to its parity with the leading industrial nations. By isolating technological adaptation from other elements in the MNC package, Japan avoided many of the dangers and missed some of the advantages of cross-cultural fertilization.

2) *Management contracts*, on the other hand, along with other contracts for special technical or business skills, are *personal*. They imply that, if the developing country resents the power given by foreign *ownership*, it nevertheless finds the advantages of skilled technicians and businessmen well worth its tolerating the foreigner himself. With the passage of time, the American genius for business management tends to be accorded successively greater emphasis. In the mind of some experts, the greatest gain derived from the MNC's has been, not their moving of resources across international boundaries, but their mobilizing of the resources of the host country.(4) Others, especially current commentators, lay great stress upon the value of the multinationals' *providing access* to foreign markets for the exports of

(3) Wolfgang G. Friedman, "The Contractual Joint Venture," *Columbia Journal of World Business*, Vol. III, No. 1, January-February 1972, pp.57-63.

(4) Raymond Vernon, *The Economic and Political Consequences of Multinational Enterprise*. Boston, Graduate School of Business Administration, 1972, p79.

less developed countries. Like other aspects of business organization, this does not depend upon foreigners' owning physical production facilities in the host country.

3) "Turn-key" projects involve the construction of a plant by a foreign firm which then upon completion of the project, withdraws from the scene. Some of these, like the Fiat construction of the Togliatti automobile plant in the U.S.S.R. involve governments as the recipients of the plants.

Appraisals of the long-run significance of joint ventures vary from great enthusiasm to skepticism, but the center of gravity of informed opinion is clearly favorable. In the title of an article, Professor Richard D. Robinson of Columbia University asked the question, "The Global Firm to Be: Who Needs Equity?",[(5)] which he answered "No one". Direct foreign investment by private firms has had its day, he thought, because property rights involve difficult problems particularly the repatriation of profits, while the skills and research of the multinationals are welcomed nearly everywhere.

More soberly, an article contemporary with Robinson's raised doubts as to whether international firms would not find joint ventures too restrictive on their freedom of action, so much so indeed as to render them incapable of independent international planning.[(6)] Licensing, objects another student of the problem, generally fails to capture the profit of technological innovations because of the difficulties of protecting them by patents and securing their correct utilization.[(7)]

Let us summarize some conclusions about private joint ventures, reserving *government-MNC* agreements for later comment.

1′) The Third World has gained considerably in the *balance of power* in negotiations. Partly this results from a reduction in the political pre-eminance of the United States, but partly from the fact that the MNC's by their very successes in transferring various production and business skills, have in the end reduced their own importance.

2′) *The role of capital transfer* and equities in foreign business is declining,

(5) Richard D. Robinson, "The Global Firm to Be: Who Needs Equity?" *Columbia Journal of World Business*, Vol. III, No. 1, January-February 1968, pp.23-28.

(6) Edith T. Penrose, *The Large International Firm in Developing Countries: The International Petroleum Industry*, London, George Allen and Unwin, Ltd., 1968, p.273.

(7) G. C. Hufbauer, *The Multinational Corporation and Direct Investment*, Princeton University, International Finance Section, mimeograph, 1973, pp.40.

especially in less developed countries, partly through economic change and partly through political forces. *Services* have now come to play the stellar role: technological and technical skills, managerial and other business capabilities, and "know how" in general. Joint ventures can detach these services from property ownership. "Perhaps we are at the beginning of a new period, in which firms will increasingly export a package of *services*, comprising knowledge, loan capital and human skills, rather than *own* productive facilities," writes Professor Dunning.(8)

3′) Among the various attributes of the MNC's, a unique contribution to host countries' development is the *furthering of exports*. In the older theorizing this was made to turn upon the foreign firms' exporting part or all of its production in the host country. While this phenomenon has been decried as creating economic enclaves within those countries and thus failing to contribute to development, it may be well to observe first that the host countries have often *required* the export of a part of the foreigners' products; and, second, that the gains from the international division of labor in this case do not differ in *kind* from exports of native firms' products.(9) However, the current emphasis is not upon the export of the multinationals' own product from the host country, but upon providing *access* to export markets for the *host country's* own product. As Professor de la Torre points out: "Foreign subsidiaries have greater access to market information, distribution changes, and international marketing skills than do domestic firms."(10) We have here a really *unique* business service of a developmental character far transcending those contributions which can be associated with a foreign firm's own exports.

4′) Undoubtedly the current trend in the international relations of the developing countries is an increased emphasis on *other objectives than economic*

(8) John H. Dunning, "The Future of the Multinational Enterprise," ***Lloyds Bank Review***, No 113, July 1974, p.32. He was a member of the Group of Eminent Persons of the United Nations in 1973 appointed to examine the MNC's impact on economic development.

(9) A particularly categoric objection to MNC exports has been voiced by Benjamin I. Cohen, *Multinational Firms and Asian Exports*, New Haven and London, Yale University Press, 1975, *passim*. While he bases his conclusions partly upon South Korea, he does not explain why that country, which according to his own report (p.72) licensed 120 firms from a total of 266 foreign firms in 1970 *solely for exports*, nevertheless did *choose* to license them.

(10) For example, José de la Torre, "Foreign Investment and Export Dependency," *Economic Development and Cultural Change*, Vol. 23, No. 1, October 1974, pp.133-150, especially p.137.

efficiency, such a national participation (*other than the equity form*) in business decisions and research and upon welfare objectives seem ideally adapted to accommodating the non-efficiency and non-economic objectives. In this ambit, multinational firms will increasingly prefer to invest capital and to conduct business based upon property rights in the *developed* countries in which these conventional rights are more respected, in which efficiency dominates business decisions.(11)

2. Other Spontaneous Changes

"Untying the economic package" embraces by far the most important of the spontaneous (market induced) changes in the MNC's in recent years, probably extending into the future. Three other such changes occurred. One has been the spread of multinationals based upon other countries than the United States, especially Europe and Japan. But MNC's have also sprung up which are based in developing countries such as Mexico, India, Brazil and Taiwan. According to a survey of a European commission of multinational companies in 1976, some 4,534 multinationals have their parent concerns in the nine countries of the European Economic Community, while 2,570 belong to the United States, and the balance of the 10,000 companies belong elsewhere.(12)

Another type of change is the "border industry", so called because in the late 1960's, Mexico established a zone along its northern border in which native firms could import raw materials and parts without paying an import duty, with a matching concession by the United States in waiving charges on imports of the finished products embodying these elements.(13) Similar industries flourishing in Taiwan, South Korea, Hong Kong, and Singapore have had a severe impact on employment in the United States in wearing apparel, semi-conductors, radios, television receivers, office machinery and parts in all of these.

Organized labor has conducted an onslaught against American multina-

(11) As of a recent date, according to a Booz-Allen-Hamilton Survey (cf. *Columbia Journal of World Business*, Vol. VII, No. 4, p. 38), in the industrialized countries, wholly owned affiliates accounted for 65 percent, with shared ownership at 35 percent, while in developing countries the proportions were 48 and 52 percent.

(12) *San Francisco Chronicle*, September 25, 1976.

(13) Donald Baerresen, *The Border Industrialization Program of Mexico*, Lexington, Mass., C.D. Heath and Co., 1971.

tionals which carry on this business through their foreign affiliates; but there seems to be nothing peculiar to this kind of import in comparison to imports in general. For ordinary imports, the enemy is a foreigner but for the "border" business (also called "runaway production") the enemy is a "traitor" living in America! To this kind of thinking, the economist has always responded, first, that though there may be some transitional costs of adjustment, in the end each nation benefits through buying abroad if it is cheaper or better. In the "runaway" case this is also true: we benefit by the use of cheaper foreign labor; they benefit by the increase of employment. Secondly, in the long run our labor, displaced by imports, finds jobs in higher skilled uses. At present Japanese multinationals, following the American example, are relieving the shortage of labor within their own country and giving employment to Korean labor. The MNC's are thus the vehicle of this progress and economic development, but they are often maligned for it.

Another spontaneous, market-induced change impinging upon the MNC's is the technological-social phenomenon that new products, once introduced, tend to be adopted twice as fast as before the Second World War. To the early producer, the shorter diffusion period brings the financial harvest more rapidly; but the end of the "product cycle" comes faster also. Thus, it is said that U.S. trade problems fall into two varieties: older lines of manufacturing lose their distinctiveness; and industries not identified by product differentiation—that is, standardized products—stand a good chance of encountering production outside the country which is cheaper than at home. In either event, the MNC must turn to other channels of activity which demonstrate a genuine economic contribution, such as those often found in business administration or in technological skills. The virtual pre-empting of North Sea drilling by American engineers is an example.

In all types of change touched upon, the multinationals' survival and prosperity depends upon finding legitimate, timely, and welcome ways to contribute to economic growth and development. This is their only—but their very promising—hope for overriding temptations to resort to bribery, excessive nationalism abroad, prejudices, misinformation and sectional interests at home.

III. Government Action and the Multinationals

In contrast with the previous section which has traced the changes which impinge upon the MNC's from market forces, we are now concerned with government dealings with multinationals, regulating them, cooperating with them in joint ventures, or terminating their presence in the local scene. Both in the motives for action and in the character of government behavior there have been decided changes during the past 10 or 15 years. During the halcyon days of the multinationals in the 'fifties and 'sixties, host governments were concerned with counteracting specific alleged abuses by the affiliates or head offices of the foreign firm, or—more rarely—its home government. They were also concerned with measures deemed by the host governments to be beneficial to the economic effiiciency of domestic production. Increasingly, however, during the present decade political, social welfare and economic objectives *other than* efficient production have come to the fore. This shift in the center of gravity of objectives has—needless to say—profoundly affected the methods and character of government actions involving multinationals.

1. First Type Objectives

The first of these three categories of objectives—specific abuses—embraces two which are linked to the U.S. government. Anti-trust legislation in this country occasionally touches foreign-based affiliates doing business here. Since concern with monopoly is a very much less lively public sentiment in Europe and elsewhere than in the United States, a divergence of government attitudes is inevitable. Solutions must depend on intergovernmental agreement or supra-government intervention. Much the same must be said concerning foreign affiliate transactions which infringe upon American regulations concerning "trading with the enemy." These are undergoing a gradual attenuation with the lapse of times after the war.

Unlike the foregoing, certain types of offense are not ascribed to any foreign government but to the foreign MNC's themselves. Of these a common complaint has been that multinational firms evade local taxation through shifting profits to low tax-rate countries by charging spuriously

high prices on goods or services supplied by affiliates to high tax countries. Suppressing this practice would be impossible without some kind of international cooperation, for example, such as framing a universal accounting procedure to which all MNC's would be invited to subscribe.

Corporate shifting of monetary assets from one currency to another has on occasion been charged to the large international businesses as a cardinal sin. Publicity would help to curb the practice, but countries receiving this sort of "hot money", such as Switzerland, are understandably loathe to disclose the identity of depositors. Again the ultimate remedy can be none other than international control.

Finally a word must be devoted to bribery by businesses. Without making it a criminal offense, this abuse cannot be suppressed and this makes it automatically a national responsibility. In the United States recently the mere disclosure of bribes to foreign government employees and officials has cost some multinational corporation officers embarrassment and in some cases demotion. Answerability for bribery, however, must be shared by the hosts of MNC's, who sometimes show too great alacrity in receiving such emoluments.

2. Second Type Objectives

Of much greater economic significance is a second sort of host government concern about the multinationals which pertains to their effect upon domestic economic productivity in the sense of volume of output. As previously remarked, during the 'fifties and 'sixties, governments were chiefly concerned about certain abuses which have been noted, but they were in general inclined to accept—and indeed to compete with one another to *induce*—the entry of the MNC's for their contributions of production, capital, technology and business management. Later, however, governmets began to believe it necessary to assure that these elements extended beyond the foreigner's own production, to the place of the MNC's in welfare aspects of the host economy.

At present, however, our concern is more limited. Some types of industry, for example, those which emanated only in luxury or upper class consumption, seemed too remote to be counted as promoting efficiency. Once launched, however, selective import controls could be made to serve less lau-

dable ends. Furthermore the spread of technical knowledge seemed to "trickle down" to native producers too sluggishly. The employment of native labor, then native supervisors and finally native managers was made mandatory. Still adhering to the criterion of economic efficiency, demands could be made that multinationals conduct part of their "research and development" activities within the host country in order to train native talents in these skills. And since the supplanting of raw materials exports by industrial products appeared as a natural concomitant of improved productivity, certain foreign firms, at least in the case of Mexico, have been required to export their product instead of selling it in the host country. This belongs to "beggar-my-neighbor" measures, since rival exporters from the home country stand to be injured.

3. Third Type Objectives

In the latter part of the decade of the 'sixties and increasingly in the present decade, host government concern with foreign businesses has come to embrace objectives well beyond the terrain of economic efficiency. Aside from mere size of the gross national product, foreign direct investment is judged for its effect on: distribution of income across economic and social classes; the compatability of given lines of production with natural assets; with urban development, the avoidance of pollution, technological progress, consumption patterns, and various cultural values. In a category by itself in importance is the limiting case in which complete control over all aspects of the economy is reserved for host governments of firms. However, demographic controls have all too often been omitted in all contexts. Otherwise any or all of these concerns of national policy have permeated, and have often dictated, the host governments' dealings with foreign business, particularly the multinationals.

4. Channels through Which Control Is Exercised

In past times, national governments exercised control over foreign business through general regulations governing their original licensing and their continued operation in the national economy. Latterly two devices have come to the fore—disinvestment and the joint venture shared by foreign private firm and host government. Because of their distinctive nature, joint ventures in democratic and in Communist nations will require separate

analysis.

Not all *disinvestments* are compulsory. In fact, over a recent sample period (1967—1971), from 40 to 50 percent of all recorded cases took place in Europe, where disinvestments are voluntary.(14) Torneden's careful researches revealed that the leading causes of voluntary disinvestment were, in order of importance, unacceptable returns on investment, too small a market, a cloudy future for the product and lastly, problems with the host government. Despite a phenomenal eight-fold increase from 1969 to 1971 from $7.5 billion to $85 billion for the United States' total direct investment abroad, the number of disinvestments as a percentage of new investments increased year by year from 1967 through 1971 as follows: 9.2; 11.5; 9.1; 18.1; and 36.7. It has been observed that even voluntary disinvestments, such as the Schlitz Brewery Co. in Belgium and Raytheon in Italy, have had adverse effects in the host country.

Compulsory disinvestments or expropriations obviously reveal that the toleration of a country for a foreign firm or industry has reached a breaking point. While death is, in a sense, a cure of disease, these ultimate recourses are not always as remedial for the national economy as the proponents such as Albert Hirschman and Raul Prebisch have thought. Even the *threat* of disinvestment by a foreign company has, on occasion, brought on massive unemployment and prospective investors have been discouraged. Actual withdrawals by some British firms in Pakistan, Sri Lanka and India produced a net disinvestment by British, American and German firms. National planning estimates were upset, and the chemical and engineering branches experienced a recession. Thus, voluntary disinvestment may have more far reaching effects than involuntary, as the study by Sachdev concludes.

It would be well, if need be, to include disinvestment in the original licensing of a foreign firm, which can then include this eventuality in its plans. Advance provision could also include the possibility of prolonging the license if periodic reviews yield a diagnosis favorable to the firm. The

(14) The sources of information on this subject upon which I have drawn are chiefly two: Roger L. Torneden, *Foreign Disinvestment by U.S. Multinational with Eight Cases*, New York, Praeger Publishers, 1975; and Jagdish C. Sachdev, "Disinvestment: a New Problem in Multinationals — Government Interface," *Management International Review*, Vol. 16, No. 3, 1976, pp.23-36.

inclusion of disinvestment and expropriation contigencies in international agreements has been recommended increasingly.[15]

IV. Joint Ventures of Multinational Firms with Foreign Governments or Government Entities, Including Communist Nations

In view of the fact that compulsory disinvestments and expropriations are essentially negative, running counter to the productive international division of labor and cutting off the host countries from hope of gain from multinational firms, it is not surprising that a new movement is asserting itself in the growth of MNC-host government joint ventures. Even by 1972, according to a United Nations estimate, some 600 agreements of this sort had been struck between Western firms and Eastern European governments alone.[16] According to professor Richman's report, Yugoslavia led all countries where some 100 joint ventures had been established by 1973 with a dozen additions by 1976, distributed over 25 industries. In Yugoslavia, a foreign firm negotiates a contract with the Workers' Council of the appropriate industry, but the government always approves it. While the Workers' Council has the ultimate authority as to the distribution of

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(15) Certain trade control devices of major importance in the current scene have not been included in this survey. Boycotts, including the Arab action against Israel, fall outside the preview of this article because their aim is usually purely political, unrelated to economic development, although touching the MNC's but in a degree much less than commonly supposed. (See Nancy Turk, "The Arab Boycott," *Foreign Affairs*, Vol. 55, No. 3, April 1977, pp.472-493.) National subsidies to exports, while affecting both the economic development or growth of other nations, and the ability of MNC's to compete in the home or third country markets, are not controls imposed on the multinationals themselves. (On the adverse effects of Japanese dumping of color TV sets and of steel on the American market, see Donald Kirk, "The High Cost of Doing Business with Japan," *Saturday Review*, March 19, 1977, pp.20-26.) Direct subsidies through European, Japanese, and Canadian governments in the form of low cost loans, bank guarantees and protection against cost escalation are impeding American multinationals in Middle East competition. See Daniel M. Searby, "Doing Business in the Mideast: the Game is Rigged," *Harvard Business Review*, January-February 1976, pp.56-64. All of these are cases of unfair competition, illegal in domestic U.S. trade, but difficult to combat in the international scene. The same is true of a Mexican requirement on American producers in Mexico that the product be marketed outside Maxico. Since this imposes hardship on *all* producers of this item in any country, it is a clear case of "begger-my-neighbor" tactics, which should be banned in international law.

(16) I am much indebted to Barry M. Richman's admirable research on this subject, embodied in his article, "Multinational Corporations and the Communist Nations," *Management International Review*, Vol. 16, No. 3, 1976, pp.9-22.

profits, wages, appointment of managers, re-investments, etc., all this is spelled out in the original contract, and disputes between the foreign firm and the Management Board, in which it is represented, can be referred to an arbitration court in Zurich!

Rumania, with 14 joint agreements, is distinctive in allowing direct ownership in production facilities, in permitting stock issues, and in basing the joint ventures on equities; they buy and sell abroad, negotiate prices, and carry their own hard currency accounts. Hungary, Poland, Czechoslovakia, East Germany and Bulgaria have only a few joint ventures.

But Russia has a growing number, although it does not yet permit an equity basis. While the U.S.S.R has cooperative ventures with Fiat, which produced the Togliatti plant, with a British firm for engines for Moskvitch autos, with Krupp for a steel mill, and holds contracts or is negotiating with Bechtel, General Motors, Pepsico, and Occidental Petroleum, the U.S.S.R. still searches for a general formula for facilitating business with the West and Japan. Russia's flourishing merchant marine, the Red Fleet, now the largest in the world, promises to help break down its isolationist stance. Premier Kosygin proposed to the 25th Party Congress that it establish an export sector, and this also conduces to receptivity to foreign business.(17)

In January 1976, the Bank of America participated in a 53 bank loan of $162 million for a joint venture with the government of Indonesia to provide its 6,000 habitable islands with a satellite communication system. The U.S. Export-Import Bank contributes $56 million and the physical apparatus comes from America. This combination of private firms, private and public banks, and government illustrates the versatility of the joint venture. It may well be the most dynamic form of multinational organization in the future.

V. The Probable Future of Multinationals and Nation States

Looking into the future, some observers of the phenomenal success of the multinational enterprises have forecast that internationalized production

(17) Herbert E. Meyer, "This Communist International Has a Capitalist Accent," *Fortune Magazine*, Vol. 95, No. 2, February 1977, pp.134-148.

would rise from its present one fifth of world production to fully one half. "The nation-state is just about through as an economic unit," said Professor Kindleberger, a distinguished American economist.[18] But the modern state has absolute sovereignty backed by a legal monopoly of force which allows it "to tax, to restrict, to discriminate against or to nationalize foreign-owned business or indeed to confiscate their properties."[19] Against this panoply of weapons, about the only ultimate recourse of the foreign firm is to commit suicide by withdrawing from the field. Even short of this debacle, the multinationals tend toward their own undoing by competing among themselves, and by selling their birthright through transferring technology and skills abroad.

Indeed, some pessimists have concluded that the multinationals are a passing phase of economic history. If one looks at the hostility of the one hundred Third World countries which are currently voting with practical unanimity in the United Nations against the industrial nations, and if one also contemplates the currently unchallanged power of OPEC to fix crude oil prices and even to deny this life-blood of industry to any and all non-Arab countries, one could indeed abandon all hope for international business.

Yet despite a stagnating or projected small decline for Latin America, the global capital expenditures of Unites States MNC's abroad marked up consistent increases annually of 16.1, 16.7, 20.6, 25.7, and 27.0 billion dollars for the five years 1971-1975 and are expected to reach 27.1 and 29.2 billion dollars in 1976 and 1977.[20] Bear in mind that these are figures of the yearly *addition* to American multinationals' foreign investment, so that, unless the figure became negative, they meant that total foreign investment was *still being increased*. And this was a period of unusual adversity for foreign investors.

If this record could be made in these years, the indication seems reasonably clear that the multinationals will survive through the visible future.

(18) Charles p. Kindleberger, *American Business Abroad*, New Haven, Yale University Press, 1969, p.207.
(19) Breckenfeld, *loc. cit.*, p. 16.
(20) William K. Chung, "Capital Expenditures by Majority-Owned Foreign Affiliates of U.S. Companies: Projections for 1976 and 1977," *Survey of Current Business*, Vol. 56, No. 9, September 1976, pp.22-27. There was a small dip of the total in 1975.

Neither the nation state nor the multinational firms are destined to disappear and their co-existence in the future will be in some degree made possible by mutual *accomodation,* as should be evident from a study of recent change.

But beside *ad hoc* bilateral accommodation, a very important role remains for some kind or kinds of international agreement. It is, of course, abundantly clear that the absence of any power representing reason and justice in dealings between the multinationals and national governments is lamentable. But proposals of remedies must be intensely pragmatic. International agreement is so difficult to achieve that exalted and sweeping proposals can only waste time. In my judgment the approach should involve simple measures and modest goals. A three-fold division of major situations calling for international action is put forward to facilitate discussion.

1) In some few situations, no real "private" (i.e. paricular) advantage can be gained even in the short run by the infraction of a general rule of conduct. This tends to be true, for example, of a traffic rule requiring driving right (or left) on a public thoroughfare. Exceptions do exist, but no one would advocate abolishing the rule. As a partway remedy of corporate tax evasion by "rigging" the intra-firm transfer prices, the proposal has been made for the elaboration of a uniform system of accounting which multinational firms would be required to adopt. Strong pressures would exist toward conformity, since a refusal would stand almost as an admission of evil intent. With such a basis, it would be more feasible for a national government to impose a legal requirement for access to a firm's financial records for tax enforcement purposes, with reasonable assurances against public disclosure.

Perhaps other examples of a kindred nature can be found, with similar appeal to economy of apparatus and potentially far-reaching benefits. Firms have, for example, complained of the diversity of tax and customs forms and requirements among countries. Without touching upon the differences in national *rates,* simplification of the formalities would greatly reduce outlays upon bookkeepers, accountants and lawyers. International regulation of MNC's could begin this way.

2) More numerous would be the cases in which a short-run advantage could be won by business practices at the risk of long-run loss. Wherever foreign governments might retaliate against infractions of a rule in order to make the violators pay a penalty, the "home" government would only be protecting the delinquents against their short-run folly by legal prohibitions in the first place. The range of applicability of this category is important in non-communist countries, where concepts of fair and unfair competition, including selling below cost, have meaning. Thus "dumping" by private firms (including multinationals) would be proscribed, and adherence of governments to proscription would not be (and has not been) difficult to secure. In case the government itself has engaged in begger-my-neighbor policies, as allegedly Japan has done in subsidized sales of steel and color TV sets in the United States, the practice—with its attendant risks of political repurcussions—might not have occured had unfair competitive practices been outlawed from the start by international convention. Adherence to a convention of this sort would bid fair to command a receptive audience because other countries would be aware that they might also be the victims of dumping.

This second category, for which international regulation appears to be within range of the possible, might also include the protection of patent and copyright ownership and of "trade secrets." Perhaps it could extend to corporate bribery, which is something the multinational companies need to be "protected" from, i.e. from a demoralizing pressure or competition within their own ranks. Similarly, international agreement should, in general, forbid corporations from involving their home governments in disputes with governments in host countries, new widely put under taboo by Latin American countries unilaterally under the "Calvo Clause." Finally, switching currencies in MNC reserve positions to take advantage of greater safety, to profit or avoid loss from exchange rate changes, including devaluations, etc., might properly come under some international agreement. National exchange controls have often, quite justifiably, set limits to the sudden outward transfer of funds. But norms should be laid down as to the duration of such prohibitions as well as to what are legitimate occasions.

3) A third category embraces the very inclusive terrain of intrusion of non-economic (particularly non-efficiency) purposes into national pricing and promotion policies in international trade. Most frequently this emanates from the national governments themselves. Third World countries have emphatically declared their readiness to sacrifice economic efficiency and development, narrowly defined as increasing per capita GNP, if necessary to permit increased national planning, to develop their own research skills and organizations, nurture native cultures, preserve the national patrimony of irreplaceable natural resources, avoid pollution, defend labor rights, spread employment and the like.

National zeal for these objectives sometimes finds its outlet in expropriations of foreign firms, "fade-out" requirements at their initial entry, or a proliferation of controls which effectively dampen foreign entry. In a setting of this sort, the prospects of international regulations or agreements aimed at the survival of mutual gains from international trade or international production are not really promising.

In the abstract, this would also have to be said with respect to communist countries. Ordinary tests of fairness in economic dealings, such as covering costs plus an adequate profit margin, fail to have any meaning in a setting in which profits are not a recognized objective or criterion, and in which costs are not established by market forces but are set by authoritarian decision. It is somewhat surprising that multinationals are increasingly welcomed—of course in carefully prescribe conditions—in the U.S.S.R. and its Eastern European satellites. But the paradox disappears when one recognizes that these socialist countries feel secure *vis-a-vis* foreign firms in a way not paralleled in Latin America. Furthermore their development has progressed farther in non-economic dimesions, permitting greater emphasis upon the economic aims.

In concluding this extended discussion of the specific *content* of international agreements or international regulation, some justification needs to be offered for primary emphasis on this subject rather than upon the *organzation* for this purpose. In the first place, the nature of the organization is completely determined by the inclusiveness and nature of its purposes. Presumably these will progress through some such escalation as the three categories of controls have indicated. In the second place, both governments

and multinationals should undergo progressive adaptation as the scale of control expands. Finally, controls of the third category embracing non-economic objectives of government action, should be differentiated *regionally* at the outset. Clearly rules suitable for the Third World, struggling to assert its nationalism and to attain literacy, health standards, and other basic amenities, will insist upon these aims more strenuously than the generally prosperous nations comprising the OECD. Regionalism in controls pertaining to the relations of the multinationals would permit a faster advance than if the rules had first to command universal acceptance.

Consistently with gradualism in the *objectives* of international regulation of government-multinational-firm relations, the *form* or *organ* of regulation has initially to be modestly conceived. Thus the recent code of ethics of the Paris-based OECD, based on voluntarism, seems to move in the right direction, though its specific content needs reconsideration. It has been pointed out quite rightly that the proposed code "···puts tough restrictions on private multinational corporations, [but] it is silent about government-owned enterprises and private national enterprises."(21) Since the United Nations has come to be dominated by anti-American dictatorships, the OECD representing 24 nations avoids this stigma, and is well situated to give a fair consideration to the joint responsibility of international action for both governments and corporations.

In taking leave of the role of multinational enterprises in econmic evolution, let us view its future in a large perspective. Several elements appear with certainty. The role will continue to be important both in the development of less affluent countries and in the growth of richer developed countries, but it will be based less upon supplying capital and owning productive facilities. Services such as the supplying of technical equipment, of techniques and technical innovation will be important, as providing skilled operators and the dissemination of skills and knowledge. A very important contribution will be business management in all its phases, including supplying less developed countries with information and assistance for export marketing.

In my own estimation one aspect of the multinational firm in the totality

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(21) Gurney Brechenfeld, "Multinationals at Bay," *loc. cit.*, p.21.

of its operations will, in the course of time, come to be more and more prized: economic efficiency. In a world in which economic matters may be increasingly politicized, in which domestic and intergovernment relations are "negotiated", an orientation or sighting upon bedrock values springing from consumer and producer choice and resource cost may take on great importance. If anywhere, values of this nature are sought after and utilized by the great multinational concerns. They are representatives of production guided by economic motivation and economy in operation. As emissaries of economc efficiency, they will on balance deserve to continue to play their present role as the chief active agents of internationalism.