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THE NATIONAL SECURITY IMPLICATIONS OF MULTINATIONAL CORPORATIONS

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28 February 1973

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BY

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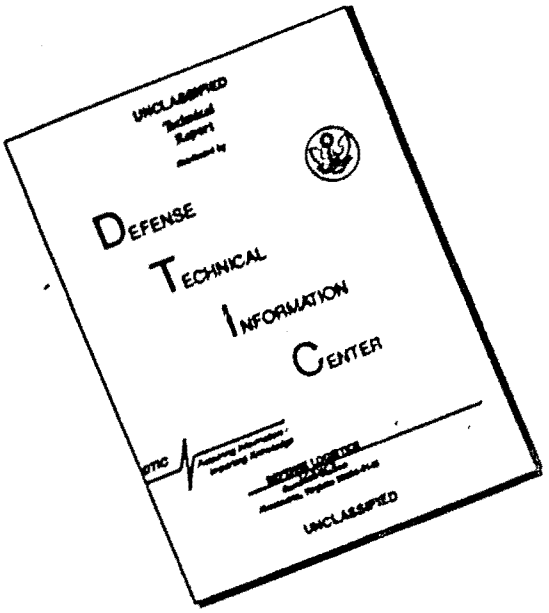

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USAWC RESEARCH PAPER

THE NATIONAL SECURITY IMPLICATIONS OF MULTINATIONAL CORPORATIONS

A MONOGRAPH

by

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US Army War College
Carlisle Barracks, Pennsylvania
28 February 1973

ABSTRACT

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The basic problem is the identification and assessment of factors pertinent to the multinational corporation (MNC) which may influence the national security of the US over the next few years. Literature search constitutes the principal technique for data and information collection. The lack of supporting information pertinent to the MNC necessitated reliance on current newspaper articles and recent periodicals. Major factors and trends that identify the explosive growth of the multinational have been examined. Academicians and management executives portray the MNC as the purveyor of world peace and global understanding. Their emphasis is focused on the profound influence that the multinational has exerted on the growing economic interdependence of the nation-states. On the other hand, the relationship between the MNC and the governments of the developed and developing nations has been often described as a "love-hate" relationship at best. As the various facets are examined, a trend develops which would indicate that the MNC is fast becoming an independent global force that could soon place nations in direct confrontation as the MNC's compete for preferred treatment, concessions, and long term contracts for the world's dwindling resources. As long as there is no political mechanism for redistribution of the world's income, there is no assurance that the good intent of the MNC will not become a weapon of economic warfare. The future of the multinational corporation as an embassary of US foreign policy cannot be left to chance.

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THE NATIONAL SECURITY IMPLICATIONS OF MULTINATIONAL CORPORATIONS

CHAPTER I

INTRODUCTION

> . . . here we are well in the nineteen seventies, suffering from yet another manifestation of imperialism, one that is more subtle, more cunning and terrifyingly effective in preventing us from exercising our rights as a sovereign state . . . the entire political structure of the world is being undermined by corporations whose power transcends international borders . . . before the conscience of the world I accuse ITT of trying to bring civil war in my country. That is what we call imperialist actions. . . .[1]

MNC FORCE: DOES A NEW THREAT EXIST?

Unfortunately, Allende's charges are more fact than fancy; however, ITT is representative of the multinational corporation. A new and independent global force that is rapidly emerging in the world. This force casually operates across the borders of sovereign nations and exerts influence which transcends specific economic interests and challenges the nation states for world leadership. The multinational corporation or MNC transfers technology, employs labor, pays taxes, searches for capital, engages in export trade and sells products in nations through the world.[2]

The assets of the MNC often outstrip the treasury of the host country in which it operates. ITT ranks 53rd when its gross annual 1970 sales of 6.6 billion dollars are compared with the GNP of 99

nations and gross annual sales of other multinational firms. General Motors ranked 23rd during the same year with gross national sales of 24.3 billion dollars. In 1971, GM had gross sales of 28.3 billion dollars employing almost 700 thousand employees in seventeen nations. Nations such as Switzerland, South Africa, and Norway fall well below this in their GNP.[3]

CONFLICT OF INTEREST

The role of the multinational enterprise in global economics has been described as the transmission of economic resources between nations and the development of unified systems of industrial activities among several nations.[4] In executing this role, the multinational often conflicts with national objectives shared by most governments. The primary objective of any country is self-preservation expressed by narrower objectives of sovereignty, independence, and security. Put to the ultimate test a nation will sacrifice all of these objectives to include peace, the economic well-being of its citizens, justice, and even its ideology. The nation will also require its citizens to do the same--even to sacrifice their lives to preserve the state. Consequently, nations foster a basic spirit of nationalism characterized by the protective desire of the people to resist penetration of their society by foreign institutions. As in Chile, governments often find that national security, domestic economic stability, protection of certain national groups and even esprit outweigh the economic benefits to be gained in coalitions with the MNC. It seems

inevitable that as the sovereign states pursue national goals, and the multinationals pursue global economic optimization, clashes will develop leading to internal upheaval and armed conflict.

THE MNC: A NEW STRATEGIC OPPORTUNITY?

In this multinational scenario of vast economic comingling of human and material resources, is it not logical that there may be a new strategic opportunity in the rapidly growing multinational enterprise?[5] A strategic opportunity in which two or more nations are in conflict, each using the multinational firm to weaken his opponents. At the same time the countries could well profess to be staunch military allies, perhaps joined by some treaty or pact in common defense.

The multinational concept multiplies the opportunities for applying military force through its ability to provide an almost infinite choice of locations in which the economic self-reliance of the nation-state can be disrupted or destroyed. More importantly, this strategy permits exploitation of an economically interdependent society while holding military force at a constant level. For the same expenditure of effort a nation can divert an enemy society, from operating at peak efficiency, require a major shift of a nation's priorities from external to internal, or possibly bring the operations of the attacked society to a complete standstill.

What then is the nature of this new and independent global force? How was it evolved? Can a textbook definition be derived for the multinational corporation which would help predict its

trends? What of its explosive growth? Does the MNC project the same image with its executives, labor, and the nation-states? Are there conflicting policies within the current Administration regarding number, type, and manner of multinational controls? These and related questions form the foundation upon which US national security and foreign policy implications of the multinational corporation are evaluated in this paper.

CHAPTER I

FOOTNOTES

1. "Allende at U.N., Charges Assault by U.S. Interests," New York Times, 5 December 1972, p. 1.

2. "On the Way: Companies More Powerful Than Nations," United States New and World Report, 19 July 1972, p. 38.

3. Global Companies: Too Big to Handle?" Newsweek, 20 November 1972, p. 36. A listing of the top 99 nations and corporations ranked by GNP and gross annual sales taken from this article can be found at Appendix.

4. John Fayerweather, International Business Management, p. 1.

5. John Fayerweather, "Nationalism and the Multinational Firm," in The Multinational Firm, ed. by A. Kapoor and Phillip Grub, p. 346.

CHAPTER II

NATURE OF THE MULTINATIONAL

ORIGIN

To idenfity a precedent of the mid-twentieth-century MNC, one need only look to the 17th century when the British Crown licensed to make profits the East India Company and the Massachusetts Bay Colony.[1] The East India Company was alleged to have ruled a fifth of the world's population for nearly two and a half centuries. These entities were the instruments and subjects of England and were entitled to call on the Crown for protection. Lineage of these early corporate organizations is traced through the mid-1860s to companies such as Singer Sewing Machine which established its first foreign factory in Glasgow in 1867. By 1900, the European continent found some 28 American owned manufacturers located on its soil, and American investment had ventured into Canada, promoting the growth of the mining, logging, pulp, and iron industries.[2]

During the middle of the 19th century, populist pressures within the US and England saw a loosening of the jurisdictions which had previously dictated the corporation's size, life, and purpose. As restrictions were lifted, corporations were formed for almost any purpose and empowered with the ability to create, buy, and sell other corporate enterprises.[3]

The number of foreign subsidiaries created by US multinationals remained relatively insignificant until the late 1940s.

A breakthrough occurred in 1947, when the General Agreement on Tariffs and Trade (GATT) committed signatories to lower tariffs and duties. This event coupled with large WW II production and technology capabilities projected the US to the fore in free world trade. The creation of overseas US subsidiaries was accelerated in efforts to "nationalize" and skirt European non-tariff trade barriers that had been passed in an effort to slow encroaching US industry. Lower wages, protected markets, and abundant raw materials supplemented by foreign country investment incentives and tax breaks further contributed to rapid US MNC growth during this period.

EVOLUTION

To describe shape and substance of a multinational enterprise is to undertake a task beset with problems. A number of definitions exist, but are oriented toward who is discussing the MNC and for what purpose. The National Association of Manufacturers has stated that the multinational is the "result of natural corporate adjustment to a complex set of continuously changing domestic and international economic and social factors which are neither readily amendable to quantification or to generalization."[4]

As corporate structure continues to evolve and is identified by the ownership and management of businesses in several nations, Neil H. Jacoby, University of California, suggests that there is more to multinationalization. He proposes that the expanding corporation traverses the following stages:

1. exports its products to foreign countries.

2. establishes sales organizations abroad.

3. licenses use of its patents and know-how to foreign firms that make and sell its products.

4. establishes foreign manufacturing facilities.

5. multinationalizes management from top to bottom.

6. multinationalizes ownership of corporate stock.

Stage 1 exporters number one hundred thousand US enterprises. Stages 2 and 3 are far fewer. Only about forty-five hundred US firms are stage 4 multinational while few giant US corporates have reached stages 5 and 6.[5]

One economist proposes that although MNC definitions are numerous two characteristics are common. Definitions focus on the Fortune magazine list of 500 US and 200 non-US corporate companies. Foreign activity indices such as the number of subsidiaries or the percent of overseas labor employed by the corporation are often used as a common denominator to identify US firms of multinational character. These criteria direct research toward large corporations of extractive and manufacturing activity, and ignore the global purpose and functional services of multinationals.[6]

Economic definitions attempt to quantify the multinational corporation. For example, a 1964 survey revealed 77 of Fortune's top 500 US corporations had more than 25 percent of their sales abroad and 7 companies had 50 percent.[7] Ray Vernon applied the foreign activity indices and defined the multinational firm as those

companies with six or more manufacturing subsidiaries abroad. From the Fortune List he identified 187 US corporations with a staggering total of 7,297 subsidiaries.[8] Using comparable criteria other studies have placed some 40 to 50 European companies in the same category as the 187 US industrials. In fact, some 80 European firms each have 20 or more subsidiaries and associates abroad as compared to 86 US multinational corporations.[9]

With a slightly different approach, another economist qualifies a company as multinational if two or more selected economic indicators are exceeded abroad by 25 percent. Indicators include assets, sales, earnings, production, and employment. Using 81 companies selected from the Fortune list, sixty-one US companies qualify and approximately 200 companies qualify using a factor of 10 percent.[10] In another analysis, the multinational firm is defined as having a gross sales of about $275 million, a net after taxes of about $13 million and approximately 12,000 employees. Roughly $20,000 is invested per employee with a return on the total investment of 11 percent.[11]

ITS LEGAL-MANAGERIAL DEFINITIONS

The legal-managerial definitions of the multinational corporation draw on the degree to which corporate decisionmaking is centralized and integrated. Economist Richard Robinson defines the MNC as one in which foreign operations are co-equal with domestic companies. Decisions remain-nationally based for ownership, and headquarters management remains uni-national. Robinson doubts the value of

measuring multinational corporation development potential in the manufacturing and extracting industries or by plants and labor organization. His focus is on these corporate organizations that,

> . . . invest principally in research and development, in the international recruitment and training of skilled technical and managerial personnel, in the organization of interrelated global markets . . . and in the capability of engineering and starting up modern plants, farms, mines, fisheries, schools, hospitals . . . whatever is needed so long as ownership is not a precondition.[12]

PSYCHOLOGICAL CRITERIA

A third category of MNC definition has been proposed wherein the psychological aspect of the multinational is equated with the attitude of managers on international corporations. He calls ethnocentric those multinational firms that send management to the overseas subsidiary to implement decisions made in the home country. Polycentric are those enterprises that administer central control over their foreign subsidiaries but which are managed locally within the host nation-states. Geocentric are those corporations with global flexibility, management, and stockholders.

The number of definitions briefly summarized here amplify the problem inherent in any discussion of the multinational corporation and its influence on US foreign policy and national security. Without some consensus as to what constitutes a MNC, it is extremely difficult to develop a meaningful statistical profile. Ray Vernon's technique of simply identifying the multinational firm as those top

500 US corporations in Fortune magazine which have six or more foreign subsidiaries would appear to be most useful in a security context.[13]

MNC EXPLOSIVE GROWTH

The growth statistics of the multinational corporation during the last two decades are staggering. US manufacturing subsidiaries established overseas (Canada excluded) took a quantum jump from 615 in 1945 to 3,203 in 1967. Direct US manufacturing investments abroad in 1950 were 3.8 billion dollars as compared to 11.2 billion dollars in 1960 and 32.2 billion dollars in 1970.[14] Overseas production of US multinational firms amounted to 156 billion dollars in 1970, exceeded only by the GNP of the United States and the Soviet Union. Over 4,500 US firms operated abroad in 1967, and that figure will probably be close to 5,000 by the end of 1972. Two hundred firms account for half of US foreign investment, and 80 of the 200 firms do 25 percent or more of their business in foreign markets.[15]

Foreign owned corporations are influencing US economics with Europe and Japan playing dominant roles. European subsidiaries within the US are annually producing between 50 and 70 billion dollars worth of manufactured goods. Using Ray Vernon's economic definition, 40 European corporations and a handful of Japanese firms are multinational.[16] Howard V. Perlmutter of the University of Pennsylvania predicts that ". . . some 300 super giants will dominate international business, producing more than half the world's

industrial output by 1985."[17] Such growth rates forecast a future for multinational enterprise of monumental proportion. As these opportunities are exploited, the MNC looms large as a force requiring immediate attention of the economists, statesmen, and strategists.

CHAPTER II

FOOTNOTES

1. Louis Turner, Invisible Empires, p. 1.

2. Ralph C. Deans, "Multinational Companies," in Editorial Research Report, 5 July 1972, p. 509.

3. Richard Vernon, "The Role of the US Enterprise Abroad," reprint by permission of Daedalus, Journal of the American Academy of Arts and Sciences, 1969, p. 12.

4. The National Association of Manufacturers, The Role of the Multinational Corporation, 1971, p. 12.

5. Neil H. Jacoby, "The Multinational Corporation," in Multinational Firm, ed. by A. Kapoor and Phillip Grub, p. 22.

6. George Modelski, Multinational Perspective: A Global Perspective, p. 4.

7. J. K. Bruck and F. A. Lees, "Foreign Content of US Corporate Activities," Financial Analysts Journal, September-October 1966, p. 127.

8. J. W. Vaupil and J. P. Curhan, The Making of Multinational Enterprise, p. 35.

9. Jack Behrman, National Interests and the Multinational Enterprise, p. 10.

10. The International Chamber of Commerce, The International Corporation, pp. 150-153.

11. Teague, Burton, "Multinational Corporations: Profits and Prospects," The Conference Board Record, September 1971, p. 20.

12. Richard Robinson, "Who Needs Equity?" World Business, p. 276.

13. Raymond Vernon, Sovereignty at Bay: The Multinational Spread of US Enterprises, p. 11.

14. John Fayerweather, "The Internationalization of Business," in The Multination Corporation, ed. by Richard D. Lambert, September 1972, p. 2.

15. Judd Polk, US Production Abroad and the Balance of Payments, p. 105.

16. Jack N. Behrman, Some Patterns in the Rise of the Multinational Enterprise, 1969, p. 45.

17. United States News and World Report, 19 July 1971, p. 40.

CHAPTER III

THE MNC IN THE EYES OF THE BEHOLDER

MANAGEMENT AND THE MULTINATIONAL

Corporate management argues that with considerable supporting data, the multinational firm is the harbinger of world peace, contributor to balance of payments; integrator of world economy; and distributor of capital, management, production, technology, and marketing techniques. Conversely, corporate executives acknowledge new policies are required to reconcile differences between multinationals and governments of sovereign nations. Top management admits serious problems exist with international monetary arrangements, world market competition, division of MNC economic gains, and expropriation.

Multinational executives assert they are interested not only in increased corporate profits and improved relations with the nation-states in which they operate but also in strengthening the forces of peaceful global co-existence. Richard N. Cooper contends that,

> . . . growing economic interdependence thus negates the sharp distinction between internal and external policies that underlie the present political organization of the world into soveriegn, territorially based nation-states . . . inviolable in their domestic actions and subject to voluntarily agreed rules and conventions in their foriegn policies (including war).[1]

Good intent of the multinational enterprise appears to be reinforced when its direct involvement in past major conflicts is examined. One study of 83 major conflicts, during the period 1820 to 1929, revealed three conflicts having causative economic factors and only one conflict (the Chaco War of 1930 to 1935) that included corporate involvement. Of some 66 conflicts during the period 1945 to 1972, none of the conflicts can be identified as having causative factors directly attributable to multinational corporations. Another study concludes that high corporate activity coincides with global locations of low conflict incidence; therefore, the supposition that high corporate involvement initiates and sustains war or armed conflict cannot be supported.[2] In sum, the multinational states that international peace is indispensable to its continued "non-existant" development.

The above statistics do not support large corporate contributions to Mussolini's 1934 conquest of Ethiopia (Abyssinia). In direct opposition to the pleas of the League of Nations and President Franklin Roosevelt's promise of personal support to the League's economic embargo of oil to Italy, Mussolini got his oil. Oil badly needed to fuel his war machine in a series of ventures which were projected to make Italy a foremost military and imperial power. As President Roosevelt attempted to gain public and Congressional sanction of a moral embargo that would ask US oil companies to observe the League's economic embargo, he was met by a howl of protest and accused of meddling with affairs in Europe

and with free American enterprise. With Roosevelt's hands tied, the oil was sold to Italy and Mussolini defied the League, and completed his conquest of Ethiopia.[3]

More recently, the Justice Department cited a case where a German subsidiary of an ITT owned a company that produced the Luftwaffe's Focke-Wulff fighter during WW II. Concurrently, one of ITT's American subsidiaries was building the "Huff-Duff" U-boat detector for the US Navy. Government records further reflect that ITT collected several million dollars in damages from the US Foreign Claims Settlement Commission for Allied bombing damage to the German Focke-Wulff plants.[4]

NAM argues that the peaceful influence of the multinational is considered by management as second only to the economic benefits the world accrues from MNC operations, and that income from foreign direct investments has replaced the trade account surplus as the most single positive contributor to the US balance of payments. Since 1960, direct US foreign investments totaled net cumulative credit to the US balance of payments of 11 billion dollars. During the last two decades, US direct foreign investments abroad increased from 11.8 billion dollars to 78.1 billion dollars or a gain of 66.3 billion dollars. Since the average payback period from US investment abroad is 6 to 10 years, NAM has concluded that on the basis of the income generated, even this exceptionally heavy investment is beneficial to the US economic position.

As US investments abroad level off, the net balance of payment contribution of the direct investment accounts of US multinationals

is likely to deteriorate, reflecting the increased earnings of foreign direct investments in the US. This trend is reflected by recent studies which showed US MNC subsidiaries were 90 percent of capacity in 1964; however, the trend dropped to 81 percent in 1967. The US foreign direct investment yield has declined steadily since 1960 although earnings rose from 1.8 billion dollars in 1950 to 7.9 billion dollars in 1969. The computed yield on book value for these earnings dropped from 19 percent in 1951 to less than 12 percent in 1970.[5]

Through global economic integration, management emphasizes the profound influence that the multinational corporation has exerted on the nation-state. Examples include linking of Capital markets of many nations, creation of an international market for labor skills, provision of improved production methods through technology and industrial techniques, and introduction of many new products with wide-spread price reduction in other established consumer lines.[6]

Management acknowledges all is not well with the multinational firm. Their relations with nation-states, labor, and other participants in global economics are strained. International monetary arrangements are proving less than satisfactory as nations press for means to achieve domestic stabilization through independent monetary policies. US MNCs in particular complain that while Executive Orders, Defense, State, and Commerce Directives abound the US has no practical policy on technological advance and exports.[7] These corporations contend US Government decisions are committee-made. No single body or MNC czar exists with overriding authority to tie

together all US agencies now in the MNC act. Of course, there is good reason to question whether the MNCs or NAM really want a Federal czar to represent these numerous government agencies. Were this to occur true regulatory authority would exist--surely the last thing the multinationals want to see.

According to NAM, the prospect for improvement is not good. On 5 December 1972, this organization alleges that union-backed legislation to abolish tax breaks for foreign subsidiaries of US firms will worsen the US balance of payments deficit and threaten thousands of American jobs. NAM further charges that labor and congressional backers of legislation do not want tax code reform but to limit the American-owned firm operations in foreign markets and to strengthen the politician's own position.[8] In sum, the multinational corporation figures prominently in the political relationships of the states, and will influence future alliances and agreements that necessarily must be consummated to accommodate or constrain the MNC.

AS SEEN BY LABOR

George Meany, AFL-CIO President, is among the labor leaders of the US taking a strong position on the multinational and its acitivites. He has identified the multinational enterprise as,

> . . . a runaway corporation . . . to a country with different laws, different institutions, different labor and social standards . . . (whose) global operations are beyond the reach of present US law or the laws of any single nation.[9]

Organized labor alleges the MNC contributes to deficits in the US balance of payments, undermines US technology by serving as a principal transfer channel, manipulates transfer pricing and capitalizes on tax and tariff loopholes.

These views are reflected in labor sponsored US Senate Bill 2592, The Foreign Trade and Investment Act of 1972.[10] Bill 2592, jointly sponsored by Senator Vance Hartke (D-Indiana) and Representative James A. Burke (D-Massachusetts), restructures the Internal Revenue Code of 1954 by repealing foreign investment tax credit and establishes a three man independent Trade and Investment Commission. In substance, repeal of the tax credit would influence MNC direct foreign investment. International capital transactions would be regulated by the Commission if the President ascertained that US employment would be reduced.

Organized labor's concern with the MNC is based on several factors. Union representation is adversely influenced by the multinational corporation's ability to locate and displace capital, technology, and other vital operations on an international scale. Unions claim these firms are beyond the reach of collective bargaining since the MNC can simply be relocated across sovereign borders if challenged by a nation. Identifying the decisionmaking center of a multinational enterprise with which to negotiate is a problem. Many labor leaders also feel that there is a certain amount of cynical passing the buck by MNC management to take advantage of generated trans-national ambiguities.[11] This problem is amplified in the case

of a union attempting to negotiate with MNC subsidiary's foreign headquarters in another nation where the union has no authority or basis for negotiation.

Union officials express concern that MNCs exert a major influence on American political, social, and economic norms through cheaper production of products abroad by American MNC subsidiaries which are imported for sale within the US; substitute for sale abroad foreign manufactured products for foreign consumption in lieu of US manufactured products; and transfer of sensitive technology abroad thus narrowing the technology gap between the US and other nations. According to organized labor, multinational activities are largely responsible for a net loss of 500,000 job opportunities from 1966 to 1969. A further claim is made that during a three year period, 5,000 jobs a month in the electrical industry were lost to foreign subsidiaries of US multinational corporations.[12] Significantly, US business cycle fluctuations and labor force structural changes will continue to overshadow MNC influence on US employment for some time to come. This conclusion is based on the sheer size of a force of 82 million workers with an additional 4.6 million unemployed.

Labor leaders also allege tax positions and financial incentives granted the MNC provide unwarranted stimulants for foreign direct investment. They encourage financial manipulation and transfer pricing at an annual loss of several hundred million dollars in US tax revenues.[13] These tax and financial incentive questions center around Section 482 of the Internal Revenue Act of 1962, Items 806.30

and 807 of the US Tariff Schedules, and the US system of foreign tax credits. Section 482 controls the transfer pricing practices of companies. It permits the Commissioner of the Internal Revenue Service to tax arbitrarily and allocate deductions. Properly administered, the authority prohibits multinational firms from shifting income among their subsidiaries to avoid paying taxes. A major problem in IRS implementation of this Section is its complexity and vagueness. Organized labor argues that a lack of uniformity of financial statistics further complicates the problem.

Items 806.30 and 807 of the Tariff Schedules permit duty-free re-entry of US goods which have not lost their identity abroad. Labor leaders charge that multinational firms use cheap foreign labor to assemble American made components and ship finished products back to the US. The AFL-CIO cites one example where the electronics industry is applying this technique with a subsequent loss of "thousands of US jobs."[14]

Transfer pricing, according to organized labor, permits the multinational firm to minimize tax payments by demonstrating low profits in high tax zones and high profits in low tax nations. This is brought about by subsidiaries paying low prices for services and products in low tax countries, and those subsidiaries located in the high tax areas paying high prices for comparable services and products.

At the present time there is little hard data to support organized labor's allegations against multinational enterprise. Only recently has organized labor recognized the ramifications of multinational rapid growth. Bill 2592 (Burke-Hartke Bill) represents

labor's attempt to restrict the multinational's global activities. Similar efforts are also being taken by labor unions in other nations.[15] Unified and coordinated labor strategy will not materialize until unions integrate their efforts in the same global style as their MNC adversaries.

MNC: AS SEEN BY THE NATION STATE

The relationship between the multinational corporation and the nation-state can best be described as "love-hate." Indisputably the MNC has produced a broad distribution of economic benefits across national boundaries and an impressive surge in economic growth. Many of these benefits are negated by political problems generated by MNC ability to transfer capital, technology and products among nations without reference to sovereign national objectives. Nations are attracted to the multinational firm because it stimulates local industry, provides tax revenues and employment. Conversely, they are confronted with practical problems of retaining their political sovereignty, and maintaining social stability and national security. Unlike the private citizen the multinational corporation transfers sovereign allegiance, jobs and technology to ensure the balance sheet at the end of each fiscal year reflects appropriate profit subject to minimum taxes. In operating flexibility the MNC has the additional advantage of often surpassing state authority whether it be tax collection or transfer of capital.

Economic allocations are normally administered through government anti-trust policies. Overseas investments provide the US multinational with a means of skirting constraints established by US anti-trust laws. Through its foreign subsidiaries, joint ventures, and foreign corporations in which the MNC invest, American markets can be dominated with foreign products. Currently the US is mounting an effort to ascertain what changes are required to its antitrust laws as they apply to foreign trade and and foreign direct investment. At President Nixon's direction, the Department of Commerce is evaluating the impact antitrust statutes have on American firms competing abroad.

Normally, government economic stabilization policies focus on balance of payments. Although MNCs claim contribution to US balance of payments, their principle motives are profit oriented. Using its built in flexibility the multinational markets its products in an area of relative inflation while manufacturing and extracting in low cost production areas of low wages, tax benefits, and government subsidies.[16] Outdated international monetary policies complicate government economic stabilization problems. Nation-state vulnerability intensifies as multinational firms transfer large sums of short-term capital from country to country.

As MNC banks and corporations exploit favorable interest rates and speculation windfalls, the demise of the antiquated Bretton Woods system of fixed money rates and even the recent Smithsonian Agreement has accelerated. Today, under the influence of multinational enterprise, world money markets are allowing major currencies to

float. This floating conjures a fear of total economic instability and is regarded with horror by numerous governments and organizations. Opponents to this competitive depreciation of currencies contend that protectionist trade wars and worldwide depression will occur with dangerous political fallout and resultant conflict if fixed exchange rates are not reinstituted.[17]

Of equal concern to governments is the multinational's arbitrary transfer of assets, income, and wealth among the nations. National governments have but limited control of this redistribution. Conflicts arise between governments over division of profits, distribution of tax revenues, and rights for domestic investors to share in the profits of a multinational firm's local subsidiary. In 1971, eighteen of the largest US oil companies grossed over 10 billion dollars in revenues. Although subject to foreign taxes, these companies paid an average of only 6.7% net income in federal income taxes to the US. Proportionally, few of these companies pay as much taxes as an American citizen who earns 15 thousand dollars a year.[18]

Former Senator from Oklahoma, Fred Harris, recently alleged that a US multinational meat combine paid an effective tax rate of 20.5 percent on profits in excess of $140 million for the three-year period ending in 1971. Normal statutory corporate tax rates were 48 percent. Tax liabilities were reduced through subsidiaries with oil and real estate write-offs. A corporate spokesman did state that $1[illegible] million had been paid in foreign taxes. Under US tax laws, foreign profits are taxable income with foreign taxes deductable.[19]

Federal Reserve Board Governor Brimmer recently expressed concern over a small number of large US multinational banks which are so heavily involved in international finance that traditional monetary distribution controls over the US economy are now antiquated and no longer work. According to Brimmer, multinational banking systems alter distribution of world capital. The same system exerts an independent and unequitable influence on international monetary policy. Citing 20 major US multinational banks, he identified one bank with 46.2 percent of $11.5 billion deposited abroad. Current lending trends of these banks is to give priority to satisfying corporate business customers over the credit demands of other sectors. Governor Brimmer summarized these bank activities by showing that banks borrow heavily from European funds. At the same time they make loans to corporate industry despite local bank scrambling to attract domestic capitol that can be loaned.[20]

The ability of governments to cope with multinational enterprise is best summarized by the common strengths and weaknesses of national economic management systems. Normally, these systems permit nations to develop solutions to national economic problems and reduce inequalities and disparities in standards of living. The objectives being to respond to the nation's people while providing a healthy environment for foreign investment. Disadvantages of most national economic systems include a total lack of a global economic coordinating mechanism and failure to coordinate foreign and domestic economic policymaking. Often these economic systems subordinate economic considerations to the pursuit of national objective which equate to world prestige.

MNC INFLUENCE ON US FOREIGN POLICY

The role of multinational firms has not only been neglected by US economic policymakers but by foreign policymakers as well. Dennis M. Ray recently stated that;

> . . . while we know a great deal about the internal dynamics of foreign policymaking and about the influence of various groups and institutions, we know virtually nothing about the role of multinational corporations in American foreign relations.[21]

This conclusion is well supported by paucity of policy and academic efforts directed in research of this subject. Available information generally amplifies the peaceful orientation of the MNC as it pursues objectives of global economic integration. Little has been said of the multinational firm's influence on foreign policymaking process of its national security implications.

MNC influence on US foreign affairs policy may be classified as external and internal. External influence is those foreign investment activities of multinationals and their host nations which require US government acknowledgement. As an example, corporate management expects the US government to react on its behalf when a subsidiary is expropriated. A similar reaction can be expected when foreign MNCs make economic in-roads which conflict with US corporate interests. Where foreign ventures of US multinational firms profit, a low US government profile and non-intervention is generally preferred.

Multinational enterprise internal influence on US government policymaking is demonstrated by the number of US corporate, investment and law firm executives that have held key foreign and national

security positions in the executive branch of the government. Official and quasi-official organizations such as Congress, and Presidential and legislative directed study groups and councils are well represented by MNC executives. Foundations, nonprofit organizations such as the Council on Foreign Relations, and trade associations further influence government economic policies pertinent to the MNC.

Richard J. Barnet recently reviewed the careers of 400 national security and foreign policy managers who have held top managerial US government positions between periods 1940-1967. Of 91 men who held key cabinet and under-secretary position to include the Secretaries of State and Defense, the respective military service secretaries, the Chairman of the Atomic Energy Commission, and the Director, Central Intelligence Agency, 70 of these government representatives were selected from large corporate and investment firms.[22] The period 1967 to present is equally well represented in these key positions with corporate, investment, and legal personnel. Statistics such as these lead to a conclusion that foreign and national security policies are developed much in the same manner as MNC decisions. Further, these decisions and policies are shaped by the ideology, personal values, and corporate identity of the men who make them.

THE MNC AND THE NIXON INTERNATIONAL ECONOMIC POLICY

Multinational corporations and US foreign economic problems are receiving increased attention. Recent administration analyses and policy actions are directed toward the international climate in

which the MNC plays a key role. Included in this spectrum are trade-liberalization talks (just as protectionist forces are lining up behind the Burke-Hartke Bill), balance of payments, international monetary problems, and the energy crisis.

President Nixon's 1970 Report to Congress stated that economics is one dimension of peace and declared, ". . . good US economic policy is good US foreign policy." Upon establishing a Commission on International Trade and Investment Policy, President Nixon explicitly recognized multinational firms as a principal actor in foreign investment and expressed a need to better explore relationships between trade and foreign investment policies.[23] His 1971 Report to Congress amplified the growing importance of economic relations in international affairs stating, ". . . for most nations, economic advancement and prosperity are the means of liberating men and societies from the weight of deprivation . . ." He reinforced a central theme in US foreign policy by saying that fair and equitable economic intercourse among nations was an absolute necessity.[24] The President's 1972 Report to Congress summarized the August 1971 actions taken during the international monetary crisis. His actions included steps to bring about a sustained turn around in the US balance of payments and the removal of export restrictions to encourage a broad international assault on trade barriers.[25]

Recent shifts in President Nixon's key aides and cabinet reflect a significant change which should permit the government to bring international economics and MNCs into perspective. Foreign and

domestic economic policymaking is under consolidation. Treasury Secretary George P. Shultz has become a surrogate to the President for economic affairs. In this capacity he will consolidate functions and responsibilities now fragmented in State, Treasury, Commerce, and the Council of Economic Advisors.[26] As MNC security ramifications amplify, DOD may soon play a key role in assessing the conflict potential of multinational enterprise.

Willis C. Armstrong, Assistant Secretary of State for Economic Affairs, expressed his views regarding the proposed establishment of a new international organization to regulate the multinational. At a Georgetown University conference on control of international investment, he stated that governments have tended to become more control-minded primarily because constituents are concerned about overly rapid and adverse change attributed to the MNC. He further indicated that a system of controls or guideposts sound nice but may not be of much value.[27]

Armstrong's views are those of his boss, the Secretary of State. In June 1971, Secretary Rogers proposed establishment of a high-level international coordination group charged with keeping world economic conditions from deteriorating into economic warfare over trade. A first task that the Group would undertake is a study of MNC operations.[28]

It is painfully clear that within the Nixon Administration there is uncertainty and an uneasiness about the multinational issue. Of consequence is the view held by economic policymakers that the State Department has been a haven of soft-bargainers where US

business interests have been concerned.[29] Thus, as MNC economic issues continue to intensify among nations, the multinational will require substantial attention until this force is recognized for what it is--unprecedented change.

CHAPTER III

FOOTNOTES

1. Richard N. Cooper, Economic Interdependence and Foreign Policy in the Seventies, January 1972, p. 79.

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29. Leonard Silk, "Economic Poker Game," The New York Times, 15 October 1971, p. 73.

CHAPTER IV

MNCs ON THE INTERNATIONAL SCENE

Phillipe de Seynes, UN Undersecretary General for Economic and Social Affairs, contends that the issue regarding international control of multinational corporations is highly political and will be long debated before a solution is reached. According to Seynes the use of an international organization will probably be limited to publicity that would embarrass troublesome MNCs and hopefully influence their activities. This is indeed a weak solution.

The UN Industrial Development Organization and the UN Conference on Trade and Development were originally chartered to provide technical assistance to less developed countries. The two organizations attempt to ensure that the terms of entry and operation of foreign investors are consistent with national goals of host countries. Both assess the effect of restrictive business practices (including multinationals) on the direction and level of exports of Third World states.[1] At the present time, little influence is exerted on multinational enterprise by the UN.

THE LESS DEVELOPED NATIONS

Developing nations favor creation of an international information center to advise them on how to deal with foreign multinational corporations. Experts agree that such a service is needed to overcome the strong belief of developing nations that multinationals are

merely an extension of western colonial control. Many poorer countries feel that the multinationals's future role hinges on derivation of a procedure whereby MNCs and sovereign nations can co-exist with profitability and autonomy for all.

CANADA

Although acknowledging economic benefits of US multinational activities, there is considerable Canadian resentment regarding US policies imposed on American subsidiaries located in Canada. Tax and antitrust policies, trade bans and similar constraints have been identified as major inhibitors to Canada's economic growth. Canadian policies, including tax controls, will increasingly favor Canadian ownership with the result that US multinational corporate growth will be adversely affected.

WESTERN EUROPE

There are indications that Western European nations will continue to impede American multinational growth. European countries are likely to continue individual controls on US MNCs. These nations feel that considerable political benefit is obtained through the influence of these controls. The US is going to have to accept this trade off to obtain European agreement for more flexibility in currency exchange rates and major trade concessions. Projected growth of the European Common Market will become a disruptive influence to US MNC expansion within Europe because of the marked emphasis on economic exchanges within the EEC. European discriminatory

preference agreements with countries in the Middle East and North Africa will also create economic obstacles to increased US multinational growth in Europe.

JAPAN

Japan will continue to control and strengthen its economy through its close alliance between government, Japanese businesses and industry. To date, Japan has benefitted with free access to US markets, while refusing to reciprocate by offering US multinationals an opportunity to exploit growing Japanese markets; however, Prime Minister Kakuei recently outlined steps to be taken to liberalize its import program and to increase aid to developing nations. Capital transfers are to be increased. Easier credit is to be provided importers, and stiffer interest terms imposed on exports. Future Japanese multinational and trade company growth will continue to be explosive with the PRC most certainly receiving considerable attention because of its recent trade liberalization moves.[2] Japan is rapidly becoming a major economic power and one which has had marked influence on the US payment and trade deficits over the coming years.

EAST-WEST IMPLICATIONS OF THE MNC

The pull of western multination capital, technology, and business know-how has become an economic force throughout Communist Europe. United States and Soviet trade agreements signed last October, Russia's search for computers, Leonid Brezhnev's recognition

that the West European Common Market is a contemporary reality, and the Soviet Union's encouragement that its allies widen commercial ties with capitalist powers--all mark trends along which East Europeans are moving toward western economic systems. Clearly, the nations behind the Iron Curtain are headed for more foreign capital and involvement with the vast multinational corporation's network.

East Europeans are making every effort to accommodate capitalist businessmen and are demonstrating innovative techniques for attracting multinational enterprise. Recently, Hungary and an American company formed a multinational firm registered in Curacao and Amsterdam. Hungary and Poland are involved in several joint ventures with western foreign firms. Yugoslavia, Romania, and Hungary have legislated to permit foreign companies to own capital shares in their firms. Management institutes of Romania and Hungary use Harvard Business School textbooks.[3]

Legal concepts and ramifications on how to best skirt East-West ideology barriers are being addressed by management executives and lawyers on both sides. Western nationals are looking forward to an even greater economic exchange through the MNC with the East as amplified by Samuel Pisar's statement, ". . . the socialist partner will spare no effort to meet his capitalist partner halfway."[4]

CHAPTER IV

FOOTNOTES

1. U.N. Document ID/40/20, Annex I; and U.N. Document ID/Conf. 1/A.25, p. 4; and U.N. Document TD/B/C.s/104, pp. 34-41.

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CHAPTER V

THE MNC: A NEW STRATEGIC OPPORTUNITY

ITS FUTURE ROLE

Few people can truly project the multinational's future influence on growing world economic interdependence. Economists suggest that the next 20 to 30 years will see organization of global and regional industrial systems made up of coalitions between multinational enterprise and nations around the world. As this evolution occurs the multinational corporation will continue to acquire and expand unique economic, social, and psychological attributes which the local firms of a country cannot. MNC emphasis will shift from profit orientation to a demonstration of its legitimacy within the nations. This legitimacy will be reflected in each nation's gain in employment, technology, capital, and tax revenues. Multinational firms will continue to enlarge their global (or geocentristic) image.

A typical MNC will focus on the entire world as a market, with its products and services tailored to the needs, and customs, and language of each nation. Economists state that nations will then be more trusting of multinational efforts to tackle the unsovlved problems and inequities of society and invite the energies of the multinational. Hunger, pollution, and unemployment all remain unsolved and invite the energies of the multinational. MNC geocentrism could well evolve global social, economic, education and urban systems that would

antiquate current forms of government. Several questions are obviously raised to this proposed "Utopia" and the contributions that the MNC can make without a duly constituted political authority. Obviously, there exists a requirement for an international organization with accompanying executive controls to assure the global objectives of multinational enterprise are regulated. Neither multinations nor nation-states seem anxious to establish such an organization.

NATIONAL SECURITY IMPLICATIONS

MNC national security implications are generally shrugged off by the economist while emphasizing the prospects it brings for peace. Statistical trends of the multinational force and favorable world environment for its growth indicate that if properly integrated the MNC could soon become a major ingredient of national power. While there are elements of increased cooperation inherent in the growth of the multinational firms, conflictual dangers exist in a world where no nation has seen fit to yield up any meaningful degree its sovereignty to any international organization. The problem is further complicated by growing MNC demands on resources. In this sense the multinational enterprise brings not hope but adds depth and dimension to man's age-old threat of war.

Scenarios can be visualized which place nations in direct confrontation as multinationals compete for preferred treatment, concessions, and long-term contracts for the world's dwindling resources. Nations faced with growing economic interdependence will

learn to employ the MNC as an instrument of its national power. Multinational assets and flexibilities will be used in a manner not totally unlike fire and maneuver are used to seize military objective. A wide range of options are available to apply economic force in exploitation of a nation's interdependent linkages that rival or exceed military force. Multinationals can drain or disrupt a nation's adversary of capital, industry, technology, and job skills.

Oil producing Middle East and North African nations, using multinational firms as their principal agents, could quickly escalate the cost of oil or preclude its distribution of selected nations. A pact between multinationals and nations of totally different cultural, geographic, and ideological backgrounds could control desperately coveted raw materials or the manufacture of key defense items common to several countries. Consolidation of defense technology from MNC subsidiaries around the world would seriously degrade the readiness capabilities of those nations employing the subsidiaries. The continued expropriation of large multinational holdings by less developed nations will place huge assets at the disposal of competing world powers and multinationals; however, US efforts to provide protection to American investments in these nations will only alienate.

In concert with other nations or operating independently the multinational firm is going to exacerbate rather than allay international tensions. Growing nationalism and anti-Americanism

in Canada and Western Europe will act counter to profit motivation of US multinationals. Expanding international money and capital markets, globe hurtling communication networks and transportation systems, and growing economic interdependence of nations favor increased MNC growth. Unconstrained, this growth will develop conflict scenarios with grave security implications. Adverse influences will occur with product and extract prices. Monopolies on defense technology and procurement will develop as well as a detrimental reduction or transfer in foreign exchange reserves. There will also be production techniques that restrict or alter commodity availability to the people. These alternatives are profit oriented options available to the multinational firm which will influence power balance throughout the world.

IN SUMMARY

The multinational corporation is here to stay. The role it will play as a principal actor in international conflict remains to be seen. Academicians and management assure that without a peaceful environment multinational growth will stagnate; however, the profit orientation of the MNC necessarily centralizes management objectives that may be external to those of host nations. The US would be remiss if this conflict potential is ignored.

There will always exist the need for keeping order, for keeping and maintaining rules of corporate interaction and good citizenship. There will always be a requirement for a global market for public goods and services not provided by multinational corporate initiative.

More importantly, as long as there is no political mechanism for redistribution of the world's income, and despite its good intentions, multinational enterprise will generate intense political tensions leading to conflict situations among the nations. Finally, there is no assurance that unconstrained multinationls will not become weapons of warfare, many times more powerful than the atom bomb, employed by one nation to erode economic self-reliance in others. From these and many other questions must be found the multinational corporation's place in world order. The future of the MNC as an instrument of US foreign policy cannot be left to chance, for an instrument it surely is.

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LTC CE

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