U.S. MULTINATIONAL CORPORATIONS AND NATIONAL SECURITY POLICY

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This report presents a survey of the literature on the security aspects of multinational corporations' activities. It identifies those aspects which have been previously researched and those requiring further study.
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By: Dr. N. R. DANIELIAN of the International Economic Policy Association

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ABSTRACT

This report presents a survey of the literature on the security aspects of multinational corporations' activities. It identifies those aspects which have been previously researched and those requiring further study.

DISCLAIMER

The views and conclusions contained in this report are those of the authors and should not be interpreted as necessarily representing the official policies, either expressed or implied, of the Defense Advanced Research Projects Agency of the U.S. Government.

CONTRACTUAL TASK

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FOREWORD

With all of the controversy and publicity that has grown up around the multinational corporation, very little attention has been paid to the interaction of this new international economic phenomenon with the broad area of "national security." IEPA was asked by the Stanford Research Institute to identify the security aspects of multinational corporations' activities which have been adequately researched and those requiring further investigation.

The study, therefore, takes the form of a preliminary analysis of the MNC-national security interaction, and a review of the existing literature and research. As noted in the introduction, the conclusions are highly tentative and the references are intended to be illustrative rather than exhaustive. Constructive comments will be welcomed, particularly as to issues which may not have been given adequate attention, or any important areas of research which may have been overlooked.

From the standpoint of the national interest, the evidence in this survey suggests that, although there are some problems and international frictions connected with multinational corporations, MNCs strengthen the U.S. economy and international competitive access. On balance, therefore, they are assets rather than liabilities from the standpoint of national security, broadly defined. In fact, a case can be made that drastic curtailment (whether by U.S. taxation or investment controls, or by other countries or international bodies) of the U.S.-based multinational enterprise could have adverse effects on the national security:

a. By reducing an important source of balance of payments earnings—which are essential to pay for military deployments and foreign assistance programs;
b. By making it more difficult for the U.S. economy to maintain competitive access to foreign sources of energy and other vital natural resources;

c. By curtailing U.S. investments abroad and access to foreign markets; and

d. By weakening the interdependent web of international economic activity and the mutually beneficial exchange of technical knowledge.

From the standpoint of the MNC, which is under attack from many different quarters, both at home and abroad, an understanding of the national security contribution which they are making or can make would appear to be useful. It is hoped that this paper will stimulate constructive thinking and additional research in this area, particularly on the question of how the assets which MNCs represent can be maximized and any liabilities reduced.

This report was prepared via subcontract by the International Economic Policy Association under the supervision of Dr. N. R. Danielian and Dr. Timothy Stanley.

Richard B. Foster
Director
Strategic Studies Center
## U.S. MULTINATIONAL CORPORATIONS AND NATIONAL SECURITY POLICY

### Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INTRODUCTION AND OVERVIEW</strong></td>
<td></td>
</tr>
<tr>
<td>Objective</td>
<td>i</td>
</tr>
<tr>
<td>Problems of Definition</td>
<td>i</td>
</tr>
<tr>
<td>1. The MNC</td>
<td>i</td>
</tr>
<tr>
<td>2. National Security</td>
<td>ii</td>
</tr>
<tr>
<td><strong>Focus of the Survey</strong></td>
<td></td>
</tr>
<tr>
<td>1. Military and Industrial Production Base</td>
<td>iv</td>
</tr>
<tr>
<td>2. The Political Effects of MNC's</td>
<td>iv</td>
</tr>
<tr>
<td>3. The Economic Effects of MNC's</td>
<td>iv</td>
</tr>
<tr>
<td>4. Areas of Special Impact: The Military Political and Economic Effects of MNC's on East-West Relations</td>
<td>iv</td>
</tr>
<tr>
<td><strong>Summary of Findings</strong></td>
<td>v</td>
</tr>
<tr>
<td><strong>A Note on Methodology</strong></td>
<td>ix</td>
</tr>
<tr>
<td><strong>Note on Source Materials</strong></td>
<td>x</td>
</tr>
<tr>
<td><strong>I. EFFECTS OF THE MNC ON THE U.S. MILITARY POSTURE AND INDUSTRIAL PRODUCTION BASE</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Introduction</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>A. Effects on Plant Capacity, Skill Levels, and Resources in Terms of the Defense Production Base in the U.S. and Abroad</strong></td>
<td>1</td>
</tr>
<tr>
<td>1. Industry Categories</td>
<td>2</td>
</tr>
<tr>
<td>a. Computers</td>
<td>3</td>
</tr>
<tr>
<td>b. Electrical and Electronics Industries</td>
<td>3</td>
</tr>
<tr>
<td>c. Aerospace</td>
<td>6</td>
</tr>
<tr>
<td>d. Shipbuilding</td>
<td>7</td>
</tr>
<tr>
<td>e. Traditional Armaments</td>
<td>7</td>
</tr>
<tr>
<td>f. Transportation Equipment</td>
<td>7</td>
</tr>
<tr>
<td>g. Nuclear Industry</td>
<td>8</td>
</tr>
<tr>
<td>h. Chemical Industry</td>
<td>9</td>
</tr>
<tr>
<td>i. Heavy Industry</td>
<td>10</td>
</tr>
<tr>
<td><strong>B. Effects on Military Technology</strong></td>
<td>10</td>
</tr>
<tr>
<td>1. Research and Development</td>
<td>10</td>
</tr>
<tr>
<td>2. Transfer of Technology</td>
<td>14</td>
</tr>
<tr>
<td>3. National Security Controls on Technological Transfer</td>
<td>17</td>
</tr>
<tr>
<td>4. Dependency on Foreign Know-How and Technology</td>
<td>20</td>
</tr>
</tbody>
</table>
### Table of Contents (Continued)

**C. Effects on National Control of Information**

Page 21

**D. Effects on Availability of Critical Raw Materials**

Page 22

**II. THE POLITICAL EFFECTS OF MULTINATIONAL CORPORATIONS**

Page 30

- **A. MNC's as Sources of Conflict**
  - 1. Conflicts Between the MNC and the Nation-State
    Page 30
  - 2. Conflicts Between Host and Home Countries
    Page 35

- **B. MNC's as Sources of Stability**
  Page 39

- **C. MNC's as a Source or Channel of Influence in International Politics**
  Page 43

**III. THE ECONOMIC EFFECTS OF MNC's**

Page 45

- **A. The Effects of Foreign Investment on the U.S. as a Home Country**
  - 1. Effects on the Balance of Payments
    Page 45
  - 2. Effects on the Balance of Trade
    Page 48
  - 3. Effect on Domestic Investment and Jobs, Finances, and Taxes
    Page 50

- **B. The Impact of Foreign Investment on the United States as a Host Country**
  - 1. The Effect on the U.S. Balance of Trade and Balance of Payments
    Page 55
  - 2. The Effect on Domestic Investment, Jobs, Finances and Taxes
    Page 57
  - 3. The Effect on the Control of Specific Essential Industries
    Page 59

- **C. Effect of MNC's on the Global Economy and Monetary System**
  Page 62

- **D. The MNC and Economic Warfare**
  Page 65

**IV. AREAS OF SPECIAL IMPACT: MILITARY, POLITICAL, AND ECONOMIC EFFECTS OF MNC'S AND EAST-WEST RELATIONS**

Page 68
INTRODUCTION AND OVERVIEW

Objective

The purpose of this paper is to identify the security aspects of multinational corporations' activities which have been adequately researched and those requiring further investigation.

Tasks:
1. Within the framework of the increasing trend of the internationalization of production, identify the national security aspects of multinational corporations' activities.
2. Review the literature on MNC's operations to ascertain which national security aspects warrant further research efforts.

Problems of Definition

There is an enormous body of literature on the broad subject of national security and another one on the multinational corporation, that is to say, the foreign direct (as contrasted with portfolio) corporate investments. The problem is to define the areas of interaction between them. A random sampling of a dozen major contributions to each of these bodies of literature showed no index references in the national security books even to corporate activities or direct investment, let alone the MNC's as such; similarly there were no references to foreign or military policy or national security in the major MNC books examined.

In fact, the only literature which we have been able to discover bearing on the precise topic of "the MNC and national security" consists of one student paper at the War College, one short paper by Raymond Vernon, and one major book written in 1935.  

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1 "Strategic Implications of Multinational Enterprise," by Lt. Colonel Richard A. Bowen, USAF, National War College Strategic Research Group, February 15, 1972. There are other such papers on file at the Industrial College of the Armed Forces to which access is restricted, but their application to the MNC is reportedly very general.


3 Eugene Staley, War and the Private Investor, A Study in the
1. The MNC

Thus it can be seen that definitions are the heart of the problem. To start with the multinational corporation, there are difficult definitional problems at the outset. Some have defined it in terms of the percentage of a corporation's total investment or gross sales in or derived from operations outside its home country, others according to the areas of its operations, and still others by the extent of international ownership or the international character of its management. IEPA's Center for Multinational Studies has preferred to use the simpler definition that any corporation with major operating facilities in two or more countries outside its home country is multinational.

The key aspect of the multinational corporation is its internationalization not only of production, but also of sourcing, marketing, financing, and management, so as to maximize profits by the most efficient use and distribution of its goods and services.

2. National Security

It should be noted first that there is no agreed or commonly accepted definition of national security in the U.S. Government organization. The term is generally taken to be a combination of national defense and foreign relations. The function of the National Security Council is "to advise the President with respect to the integration of domestic, foreign, and military policies relating to

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Relations of International Politics and International Private Investment, Doubleday, Doran and Company, Garden City, New York, 1935. (We have been informed that a revised edition of this book has been published, but have thus far been unable to obtain a copy to determine the extent of updating.)

4 With few exceptions, such as binational multinationals like Shell and Unilever, it is still easy to identify, in principle, the "home" country of an MNC, although this may get increasingly difficult as true internationalization develops. It is important to recall, however, that legally there is no such thing as an "American corporation in Spain," for example, or a British company in the United States. Whatever the ownership, the foreign subsidiary is incorporated under the laws of the host country or state, and is therefore a Spanish company, or a Delaware corporation, etc., except in the case of branch operations such as oil companies or banks.

5 See for example Executive Order 11652, March 8, 1972, defining national security information as that which requires protection "in the interest of the national defense or foreign relations of the United States (hereinafter collectively termed 'national security').
the national security," but without defining the latter. Perhaps the simplest definition was that of President Hoover whose memoirs record that in 1929 he summoned his Army and Navy Chiefs to ask them whether our defenses were "strong enough to prevent a successful landing of foreign soldiers on the continental United States?" On receiving an affirmative answer, he dismissed them and apparently did not further concern himself with national security questions.

Even the somewhat broader definition of preserving the national sovereignty against foreign coercion is hardly sufficient for the latter part of the 20th century. The definition must be expanded at least to cover the ability to pursue, and if possible achieve, national objectives abroad, objectives which include economic as well as political and military interests.

In the post-war period, the advent of thermonuclear weapons and the rise of the cold war led to an ideological polarization in which the U.S. definition of "national security" was closely involved with a perceived communist threat.

As the world power structure becomes more multipolar and détente diplomacy increasingly characterizes relations between the United States, Europe and Japan, and the U.S.S.R. and China, security is often currently placed in the context of the stability of the international system; for, it is argued, true unilateral national security is beyond the reach of any single state because its military attainment would be threatening to other countries and thus destabilizing.

Thus at the present time, national security can be seen in terms of a series of perceptions making a ring of concentric circles; and in the current international security context, it is of potentially unlimited ramifications, reaching beyond the traditional military-industrial base-alliance system circle. The outer circle thus includes international relations generally and, in particular, both national and international economics.

In this survey, therefore, for purposes of exploring the major areas of interaction between national security and the multinational corporation, we have considered,

First, the narrowest "territorial integrity" and its military hardware component;

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6 Webster's New International Dictionary defines "security" as "the quality or condition of being secure . . . being protected or not exposed to danger"; and "national" is, of course, defined as "of or pertaining to the nation."

Second, the confrontation with the major challenging power centers (i.e., U.S.S.R., China, EEC, Japan);

Third, the broadest concept of national security as a web of economic and political interrelationships and alliances to ensure stability and security without undue sacrifice of national interests and sovereignty.

One other definitional problem is whether to treat the institution of the "multinational corporation" in the abstract (that is, irrespective of its ownership and operations) and the potential conflict with the nation-state in the abstract; or whether to deal with American-based multinationals (or foreign-based multinationals operating in the United States) and American national security. The survey focuses on the American perspective; but includes a few references to the more theoretical and abstract literature, where it is applicable.

Focus of the Survey

In the light of the foregoing, this survey has sought to identify the national security aspects of MNC activities in terms of four major areas:

1. **Military and Industrial Production Base**

   How does the internationalization of production and the transfer of technology implicit in the operations of the MNC's affect the U.S. military posture and industrial production base?

2. **The Political Effects of MNC's**

   To what degree are MNC's a source of conflict or stability in the international system?

3. **The Economic Effects of MNC's**

   To the degree that a nation's ability to provide for its national security depends on its economic position, do the economic repercussions of the MNC facilitate or complicate the problem of insuring national security and employing the economic instruments of power?

4. **Areas of Special Impact: The Military, Political and Economic Effects of MNC's on East-West Relations**

   What is the extent and potential of MNC involvement in new economic relationships now developing with the Soviet Union, Eastern Europe and China, and what is the impact of those relationships on national security?

The body of the survey identifies the major specific areas of potential MNC-national security interaction within each of these four areas, and comments on the literature bearing on each one.
Summary of Findings

Given the diversity of both subject matter and source material, it is difficult to summarize the findings except in very general terms.

1. On the effects on the military and industrial production base, the security aspects do not appear to be comprehensively covered in the MNC literature, with the partial exception of the transfer of technology and information; and even there, the "national security" aspects are treated sparsely, as they are on the major industry categories most essential to national defense. The whole subject of peaceful uses of atomic energy, proliferation of nuclear and defense technology and the role of the MNC's, in the context of national security, appears to be a subject of potentially useful research, as do the national security aspects of technological transfers (and acquisitions) by the MNC in general.

It should be understood, of course, that considerably more information is presumably available in various government agencies, such as the Industrial College of the Armed Forces, and from industry sources on the "defense mobilization" aspect, but such studies and documents could not, of course, be included in this survey. With government-sponsored access, productive research might be possible in this area.

The national security aspect which appears most deserving of further research efforts concerns the effects of MNC operations on the availability of critical raw materials. Although there is a growing data base and literature on the general subject of raw materials, the specific role of the MNC does not appear to have been adequately researched from the national security standpoint, except insofar as the MNC's are involved in foreign extractive operations which bring them into conflict with host country nationalism.

2. There is considerable research and publication dealing with the MNC as a source of conflict with the nation-state and as a cause of conflicts between host and home countries, and to a lesser extent as a source of stability in the international system. Political conflicts over the investments of MNC's could, of course, become serious enough to have national security implications (especially if critical supplies, such as oil, were to be cut off). This is recognized and explored in the literature, but usually in very general terms. An effort to develop hypothetical conflict scenarios might be worthwhile, although this may emerge from one of the research projects underway.

The important subsidiary question of the MNC as both a source and a channel of influence in international policies has not been the subject of much objective academic research, with one or two significant exceptions, although data and case studies are admittedly difficult to obtain. One possible research project in the political
area would be a review of the literature and surveys of opinion to try to determine the extent to which national security considerations, not overtly identified as such, may be implicitly involved in the many concerns expressed about loss of economic control or corporate power versus national sovereignty, in connection with the MNC, and whether such concerns affect attitudes toward the MNC's home country.

3. The literature on the economic effects can only be characterized as enormous, covering the effects of foreign investment, mainly by MNC's, both on home and host countries, in terms of balance of payments, trade, investment levels, production, employment, finances, and taxes. Thus the problem here is to identify specific "national security" impacts. The question can be oversimplified into a paraphrase of Charles Wilson's often misquoted statement about General Motors: "Is what's good for the U.S.-based MNC good for the United States? And is what's good for the United States also good for the MNC?"

There is a growing amount of research on the effect of the MNC on the global economy and monetary system, but the national security aspects of the decline in the dollar and continuing monetary instability appear to warrant more careful study. (The potential instabilities from MNC operations may be less than those caused by the billions of reserve assets which will be placed in the hands of the Arab oil producers; and this aspect would appear worthy of additional research.) The responsibility of the MNC, as opposed to governmental expenditures, for U.S. balance of payments crises is far from clear, however. The case that excessive "national security" preoccupations and expenditures have harmed the U.S. economy and the MNC can be made more easily than the reverse proposition. The basic issue of the transformation of the U.S. from a debtor nation and its implications for national security requires rigorous study, even though the MNC's effects are favorable.

It should be noted, however, that the important subject of the growing foreign direct investment in the United States and its impact on national security is relatively lightly treated and would appear an important area for further research, along with the question of what foreign technology might be worth acquiring from a national security standpoint.

Similarly, the extent to which the MNC can help or hinder the United States from conducting either offensive or defensive (e.g., strategic trade controls) economic warfare against one or more foreign countries is another relative lacuna in the public literature.

If one broadens the definition of national security to include the widest possible circle, that is the basic stability of the entire international system, there is an important question about the extent to which the control, or sovereignty, as Professor Vernon terms it, is challenged by the international phenomenon of the multinational corporations with their large size and operating flexibility. This
appears to be one of the most popular research topics in the entire MNC area, especially among political scientists—who have followed the economists into the subject as the MNC became an increasingly fashionable topic.

The early post-war literature emphasized the business aspects of the MNC's, the 'how' as well as the 'why' of international operations, and management and marketing. During the sixties, the primary focus was on the economic impact of the MNC on both home and host countries, and currently it is upon the international financial and monetary system. Interest in the potential conflict between the MNC and the nation-state, noted above, has coincided with the attack on the multinational corporation by organized labor in the United States, and to a lesser extent in some European countries. It is noteworthy in this connection that the emphasis of these critics has been upon the alleged "export of jobs," and that they have for the most part foregone the opportunity to make a "national security" argument against the multinationals.8

Regarding the MNC-nation-state conflict, to the extent that answers, as distinguished from questions, have been developed in the growing research, a consensus seems to be developing among the academicians (though not the business community) that international controls, regulation, registration, conventions, agreements, and codes are the answer. Curiously enough, this is the same answer advocated three decades ago by Professor Staley.9 One can argue the question of whether U.S. national security would be more advanced than retarded by "denationalization" or international control of the multinational enterprise. But this gets into broader aspects of the future character of the international system in all of its ramifications in the decade ahead, and even into more philosophical questions, which probably cannot be answered definitively. The national security implications of these questions appear to warrant more thorough study.

8 Even the one apparent exception (the testimony of the AFL-CIO's Andrew Bicmiller to the Subcommittee on International Trade, Senate Finance Committee, March 6, 1973) which details the aerospace industry's alleged export of jobs, advanced technology, and taxpayer-financed research through contracts involving missiles and military aircraft, only mentions "national security" once.

9 Staley, War and the Private Investor, cited, undertaken back in 1935 as part of the University of Chicago "Causes of War" project under Quincy Wright.
Finally, it should be noted that there is a small but growing literature depicting the MNC as an international villain. Some of it is by writers of a "New Left" persuasion, or revisionist historians, who assign the MNC a major role in the "economic imperialism" which they see as the root of American foreign policy in this century. They are, of course, joined by traditional Marxists, by proponents of modern state socialism, by some labor and other anti-business elements generally, and by critics of "bigness per se. One of the priority areas of research, if the MNC is concluded to make an important contribution to U.S. security in the broadest sense, is more authoritative research capable of evaluating and, where warranted, rebutting these criticisms. For example, there have been few good studies of the relative performance on the part of the MNC, in contrast, let us say, to government entities and nationalized industries, in achieving legitimate and desirable host country development objectives and in improving the international competitiveness of the home country industry. Such studies are certainly needed, but their direct connection with national security—as opposed to purely economic goals, appears tenuous, except to the extent that one regards gains in national economic power as automatic gains in national security.

Concerning East-West economic relationships, there is a large body of literature on East-West trade and a good portion describes the strategic trade controls and other "cold war" programs. Because of its size and flexibility, the MNC has certain advantages in dealing with the state trading economies, and thus will tend to play a key role in this growing economic intercourse.

The strategic significance of potential dependence upon the Soviet Union for vital energy or other raw materials, or of market penetration opportunities for the Soviet Union, and its potential strategic significance, have not been adequately or fully explored, nor have the long-term, ideological and political implications for both East and West.

Overall, two major substantive questions have emerged from this survey: Are U.S.-based multinationals and their foreign affiliates, on balance, assets (e.g., significant influence on important sectors of foreign countries) or liabilities (hostages, sources of international conflict, etc.) from the standpoint of U.S. national security? And to what extent is it desirable and feasible to minimize the liabilities and maximize the positive value of MNC's as a national resource?

Secondly, to what extent has the internationalization of production and other corporate activities adversely affected the strength and independence of the U.S. economy, or its critical components, from a national security standpoint?
The evidence available to us tentatively suggests that the answer to the second question is that U.S. security has not been adversely affected—and it has probably been helped, since the MNC's definitely strengthen the relative position of the United States in the world economy; and that specific risks (such as dissemination of sensitive information) are still within the power of the Government to control as necessary.

The evidence also suggests that the answer to the first question is that MNC's are, on balance, more of an asset than a liability; and that since international economics is not a zero-sum game, the United States also benefits, at least in the short term, from the reciprocal access of foreign-based multinationals to the United States, although there are some potential security aspects here which have not been thoroughly considered or researched. The most important basic question, therefore, is the sensitive one of whether the United States can seek to maximize the national security benefits of private industry's foreign direct investments (that is the U.S.-based MNC's and their overseas operations) without, by the very attempt to do so, turning them into potential political liabilities. This question has been touched on lightly, if at all, in the existing public literature. The reverse case—that actions to curtail U.S.-based MNC's would have an adverse effect on U.S. national security (as distinguished from the economy) has also not been made very clearly.

A Note on Methodology

The approach taken in this survey was, first, to draw upon the general knowledge of IEPA and its affiliated Center for Multi-national Studies in blocking out the outline of issues; secondly, to review the major governmental studies in the light of this outline; and third, to review the available bibliographies of the private research.

The breadth of the subject matter, the difficulty of defining the MNC-national security interaction, already described, and the sheer volume of the literature (well over a thousand items) has made it impossible to offer definitive findings. In some cases, the short time-frame of the survey, or the difficulty in obtaining materials, has forced us to rely on secondary references and bibliographical descriptions. In reaching a tentative conclusion that a given area is not thoroughly dealt with in the literature, therefore, we cannot be certain that some significant piece of research might not have escaped our attention.

Moreover, it should be understood that the numerous references in this survey are intended to be illustrative rather than exhaustive. Since the available bibliographies themselves run to several hundred pages, there was no choice except to be highly selective in the references given. An apology must therefore be extended to authors of important contributions to the available literature whose works
have been omitted from the references, whether due to oversight or to limitations of space. Because of the focus of the survey upon American-based multinationals and American security, only passing reference is made to the significant body of literature which has been developed in Great Britain, and to a lesser extent on the European Continent on this subject.

Note on Source Materials

The basic data which both governmental and private researchers have used comes primarily from U.S. Government sources, principally the extensive data base maintained by the Department of Commerce and published, usually through the regular issues of the Survey of 
Current Business. Although there are gaps, and the comprehensive data base is now several years old, there is, in general, adequate factual data from which researchers can draw conclusions. The Government's own data base is supplemented by surveys conducted by various business organizations of their members on a variety of topics and by the samples researched in depth at the Harvard Business School multinational project.

The most significant government studies are those of the so-called Williams Commission (Commission on International Trade and Investment Policy) in July 1971, the two reports of the Council on International Economic Policy, the Commerce Department studies on the multinational corporation, and congressional hearings. The two most active committees have been, first, the Subcommittee on Foreign Economic Policy of the Joint Economic Committee which held extensive hearings in July 1970, and the Subcommittee on International Trade, chaired by Senator Ribicoff, of the Senate Finance Committee.


In addition, the Senate Finance Committee has published two major documents, a compendium drawing on inputs by U.S. firms and associations, and, of even greater significance, the exhaustive 930-page study by the U.S. Tariff Commission made by request of the Committee.

There are three major bibliographical references on the multinational corporation:


2. The National Planning Association's British-North American Committee, *Multinational Corporations in Developed Countries: A Review of Recent Research and Policy Thinking* by Sperry Lea and Simon Webley, Washington, 1973; and


Other bibliographical sources such as abstracts of dissertations were also used as appropriate.


I. EFFECTS OF THE MNC ON THE U.S. MILITARY POSTURE AND
INDUSTRIAL PRODUCTION BASE

Introduction

The central question posed, "How does the internationalization of production and the transfer of technology implicit in the operations of the MNC's affect the U.S. military posture and industrial production base?" cannot be answered in the abstract. That is, one must have at least an implicit notion of likely national security requirements and scenarios involving limited conflicts abroad, major buildups and mobilization, or renewed threats of thermonuclear strategic conflict.

Furthermore, it must be stated at the outset that the "literature on MNC operations" under review in this survey simply does not concern itself with these questions. Indeed, there seems to be a fairly common assumption stated explicitly by Charles Schultze that economic considerations in general, let alone those affected by the MNC, do not have too much impact on our security posture within the likely range of defense effort on the one hand and economic developments on the other. Theoretically, of course, one could envisage an economic disaster analogous to the depression of the 1930's which would place absolute limits on the resources available for national defense; and one could also hypothesize the transfer abroad of major sections of the U.S. industrial production base, with the United States becoming a "service" economy in which it would be difficult to quickly reestablish domestic production capability for supplying the traditional and modern armaments and supplies required in a buildup. But even in such a farfetched scenario, a modern industrial society would probably retain the knowledge and latent capacity to reestablish such a production base; the strategic significance rests in the lead time.

The traditional classification of security requirements into strategic deterrence forces, general purpose forces and what might be termed "military assistance" capabilities suggests that the need for a major mobilization buildup is among the less likely contingencies. One has to expect a return to the type of "threat" perceived during the cold war to foresee a requirement for major U.S. buildups in Europe, and perhaps the Far East. The present production base would appear to be adequate for the local conflict--military assistance needs; and a thermonuclear exchange would presumably involve the strategic forces in being. However, there is a requirement for a significant capability to assist in post-attack survival and recuperation, in which the potential of the MNC could be important, although a precise analysis is very difficult.

2 However, it is to be hoped that the tools and methods for stimulating an economy out of a recession are better understood now than in the 1930's, even though the art of doing so without substantial inflation is as yet unmastered.
Still another genuine national security concern is avoidance of the diffusion of advanced nuclear, missile, and other weapons technology leading to a proliferation of independent national war-making capabilities. There are almost an unlimited number of books, articles and studies, governmental, by "think tanks", and by academicians dealing with alternative war scenarios. But insofar as we have been able to discover, they simply are not addressed in the so-called "MNC" literature. A much more thorough examination would be needed to develop the possible interaction of the MNC and national security in the context described above. This might be an area worthy of research, at least for those who are concerned with planning against the range of possible national security contingencies, however unlikely they may now appear.

The sections below treat the effects of internationalizing production, the so-called transfer of technology issue, and the role of the MNC as a two-way channel of information. The final section of Part I looks at the question of availability of critical raw materials.

A. Effects on Plant Capacity, Skill Levels and Resources in Terms of the Defense Production Base in the U.S. and Abroad

1. Industry Categories

The industrial sector in the United States is obviously the major contributor to the Nation's economic and military strength. It is axiomatic to regard the productive capacity of American industry as the bulwark of our defense. Most studies on mobilization of resources and plant capacity, and skill levels as related to defense production are firmly rooted in the U.S. experiences of the Korean and Second World Wars. Since the multinational corporation has really only emerged as a significant force since World War II, there is an extraordinarily limited literature available. To be sure, George Lincoln's 

\[3\] Economics of National Security mentions the importance of foreign direct investment to defense mobilization, but it is in connection with the extraction and processing of raw materials, and not with the manufacture of industrial products. Very little has been done in reference to the relationship of the policies, problems and practices of the multinational corporation to national security and defense management. Not even Charles Hitch and Roland McKean's 

\[4\] Economics of Defense in the Nuclear Age contains any reference to the transformation that the internationalization of production and technology transfer has wrought on the U.S. industrial production mobilization potential. The only work that we are aware of that directly relates to this subject is

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Jack Behrman's study of the Multinational Production Consortia: From the NATO Experience. Behrman tried to discover what impact multinational corporations had on the defense production base of Western Europe, and concluded that their contribution was not very significant.

Due to the lack of hard data on the general effects of MNC's on the defense production base, it is advisable to examine specific industry groups to ascertain their relative strengths and weaknesses.

a. Computers: There have been only a few studies of the effects of MNC's on the computer industry and they have little to do with the national security question. The Conference Board has studied the motives of American business executives in investing abroad. The study was commissioned and published by the U.S. Department of Commerce, and covers 15 industries and 76 corporations. The origin, extent, and nature of foreign operations of four companies in the office and computing machine industry are described in the report, as well as the reasons for the initial foreign investment, the relationship between foreign and domestic operations and the existing state of technology in the industry.

Christopher Layton in Trans-Atlantic Investments also discusses the role of the MNC in promoting the formation of European computer companies, straddling frontiers.

b. Electrical and Electronics Industries: The Tariff Commission study on the "Implications of Multinational Firms for World Trade and Investment and for U.S. Trade and Labor," contains a number of tables comparing all firm and MNC employment data for selected countries, total sales, and average unit labor costs for the electrical and electronic industry.

The Conference Board study for the Commerce Department cited contains several case histories on the electrical machinery, radio, television, and communications equipment industries.

5 Jack N. Behrman, Multinational Production Consortia: From the NATO Experience, Department of State, Intelligence & Research, External Research Study, August 1971.


7 The Atlantic Papers of the Atlantic Institute, University Press of Cambridge, Massachusetts, and Dunellen, New York, 1970.
The Commerce Department also commissioned a study and analysis by Professor Robert Stobaugh of Harvard Business School of a foreign investment in Taiwan in the electrical machinery industry (among other industries). Professor Stobaugh concluded that there is a strong preference by American management for keeping production in the United States rather than transferring it abroad. He noted that offshore production is engaged in only when it is impossible to keep the share of the foreign market through domestic production and export.  

The strongest U.S. organized labor complaints about foreign direct investment and imports center around the electrical and electronic industries. Several investigations by the U.S. Tariff Commission on economic conditions of the electronic industry have been the result of union petitions; Economic Factors Affecting the Use of Items 807.00 and 806.30 of the Tariff Schedules of the United States contains a detailed breakdown of the imports of electronic components.

Labor spokesmen have not argued on a national security basis, however; their argument is that such overseas operations contribute to unemployment in the United States. The electronics industries in Taiwan, Hong Kong, and Korea are repeatedly cited as examples where products, technology and jobs have been exported to offshore manufacturing facilities of multinational firms.

It is important to note that the kind of production "exported" by these multinationals is not always defense-related; in fact, most of this offshore production is in consumer electronics such as television and radio.


It does not appear, therefore, that the offshore production has been very deleterious to national security. The American electronics industry depends less on defense orders than many think. Less than a tenth of IBM's $3.5 billion turnover consists of defense orders, and that share is falling. General Electric believes that government contracts have a place in their business, but keeps the defense share to about twenty percent of turnover. The backbone of the electronics business is commercial and not military; for the bulk of the evidence indicates that defense profits are generally lower than commercial ones.11

In evaluating the effect on U.S. security of internationalized production in key industries, it is useful to look at effects perceived elsewhere. The EEC has published a detailed study of U.S. investments in the electrical industry of the EEC countries, which notes that one-sixth of the EEC production is controlled by U.S. corporations with a dominant U.S. MNC position in such key sectors as integrated circuits and computers. The study concludes that European competitors forced into a secondary position constitute "an unacceptable limitation on the economic sovereignty of the European states since an industry is involved which is of strategic economic importance."12 The study, of course, was designed to support recommendations for common European policy for the electrical-electronic industry, even though the study finds that the MNC effect on employment, industrial development, balance of payments and technology in the host countries is favorable. The significant point is that the basis of European concern is economic and industrial competitiveness rather than security, per se, even though the sector involved is a critical one from the standpoint of modern military technology.

Jules Brackman, Research Professor of Economics at NYU, has done a study of electronic imports and their impact on the U.S. consumer and on employment, commissioned by the Electronics Industry Association of Japan.13 Professor Brackman discusses international trade, the U.S. balance of payments, the growing U.S. television and radio market, television imports, employment and productivity, prices, and the consumer, in an effort to assess the effect of electronic imports on the U.S. economy. He concludes that the overall effect was beneficial to the U.S. economy, although he did not consider national security ramifications. In short, there is much literature on the effects of international investments on production, employment, trade and balance of payments in the electrical industry, but little discussion of its consequences to national security.

11 Layton, Trans-Atlantic Investments, cited.
c. Aerospace: For the past generation, the United States has dominated the aerospace industry. Overall, the United States has produced about 80 percent of the aircraft of the free world airline fleets. It has generally been assumed that this industry will remain securely dominated by U.S. production because it is strong in exports (in the period 1965 to 1970 there was an aerospace trade surplus of nearly $10 billion), is high in technology and because it continues to receive large military aircraft orders which help bolster its viability.

Several studies challenge this opinion. Andrew Bremiller, Director, Department of Legislation, AFL-CIO, testified before Senator Ribicoff's Subcommittee on International Trade of the Senate Committee on Finance that the American aerospace industry was steadily being exported abroad. He gave as examples the sale of an entire missile system (the Thor-Delta launch rocket); the licensing of military aircraft manufacture abroad, (the F-4, the F-5E and the F-104 Starfighter); and the assembly of components abroad, (the memory core of the Safeguard anti-missile system and the engine of the B-1 bomber).

Industry spokesmen vehemently deny that they are exporting the aerospace industry overseas. But they do concede that the American hegemony in the aerospace field is declining.

Karl G. Harr, Jr., the President of the Aerospace Industries Association (AIA) has predicted that competition for the aircraft market for the period 1974 to 1985, which has been estimated at $148 billion, will become much fiercer as Great Britain, France, West Germany, Italy and Japan enter the market.

This theme has been repeated by other publications by the AIA, raising the specter of American technological strength declining because of the limited financial resources available to U.S. manufacturers. These publications note that foreign competition is moving into the long-range aircraft area, including the Concorde SST, the medium range, including the twin engine A-300B Airbus, and the short range, including the STOL aircraft, all supported by foreign government subsidies.

For a European view of the aerospace industry, it is helpful to look at Christopher Layton's work.

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14 Andrew Bremiller's testimony before Subcommittee on International Trade, cited.


17 Layton, Trans-Atlantic Investments, cited.
This is a fruitful area for research, particularly in view of the military sensitivity of the industry. The recent GE-SNECMA controversy has highlighted the strategic and political importance of the aerospace field.

d. Shipbuilding: Generally the shipbuilding industry is not considered to be a "multinational enterprise," although competitive bidding is often on an international scale. This industry is mentioned in this study because of the strategic importance it holds within the transportation industry. While there is no literature about the effects of MNC's on the shipbuilding industry, we have found references to its national security role, notably in George Lincoln's *Economics of National Security*, cited. The shipbuilding industry is important because all available studies indicate that it is Japan and Europe who are most competitive in this field. It is also an area which U.S. MNC's have apparently overlooked.

e. Traditional Armaments: Our research has not come across any studies on the role of MNC's in the armaments field, but there are studies available on the traditional armaments procurement policies of the United States. For the most part, defense equipment is purchased directly from industry here in the United States. In some rare cases, it has been produced by a consortium, as exemplified by NATO's efforts. There are also examples of military aircraft being licensed abroad, but this production has been for local defense rather than for export back to the United States.

f. Transportation Equipment: There have been several studies on the transportation equipment industries. The Stobaugh study for the Commerce Department, cited, contains a case history involving an investment in the Philippines in a plant to assemble motor vehicles.

The Conference Board study for the Commerce Department, cited, contains an analysis of six companies which are primarily engaged in the manufacture of automobiles and of automobile parts. This study outlines the reasons for the foreign investment, the exchange of technology and the relationship between domestic and foreign production.

The Implications of Multinational Firms also contains a detailed breakdown of the impact of MNC's on labor in the United States and abroad in such areas as employment, sales, unit labor costs, and compensation in the transportation equipment industry.

20 Biceniller testimony, cited.
21 Senate Finance Committee Compendium of Papers, cited.
Other studies of interest are J. Wilner Sundelson's article, "U.S. Automotive Investments Abroad," and Jack Baranson's "Automotive Industries in Developing Countries." A European view of the auto industry is found in Layton's Atlantic Institute study.

In terms of national security, the American transportation industry would not seem adversely affected by the activities of MNC's. Most of the companies in this group do import raw materials, semi-manufactures, and components (as well as complete automobiles from subsidiaries) to be used and sold domestically. But according to the Stobaugh Commerce Department study, cited, the imports are the same or similar to those made or purchased in the United States prior to the establishment of over overseas operations; the products imported were manufactured at considerably lower labor costs.

There is also a large body of literature on the Canada-U.S. Automotive Agreement. This agreement was originally intended to be a sectoral free trade pact providing for the eventual elimination of barriers to North American trade in automotive products and to protect and increase Canada's share of North American automotive production. While the United States has been in deficit with Canada for the past few years in automotive trade, in part because of the agreement, there does not appear to be any cause for concern that the U.S. would be wholly dependent on Canadian automotive production in a time of military preparedness—the relative sizes of the industry on either side of the border preclude that.

g. Nuclear Industry: Little information on the role of the MNC's in the nuclear industry has been located. Considering the importance of this industry to our national security, this lack is intriguing, if not startling. One of the major tenets of American foreign policy is nonproliferation of nuclear weapons and the capability to produce such weapons. MNC-borne transfer of technology in the nuclear
industry would obviously have a great impact on national security. The Atomic Energy Commission is presently studying the transfer of nuclear technology, under the direction of Dr. Felix Ginzburg; the study is expected to be published shortly. Achille Albonetti has examined the nuclear industry from a European viewpoint in a book entitled Europe and Nuclear Energy. Christopher Layton and Sidney Rolfe have discussed joint European efforts in the nuclear energy field. For a discussion of the nuclear energy industry in Japan, one should see the 1972 testimony of Dr. Keichi Oshima before the House Science and Aeronautics Committee Subcommittee on Science, Research and Development, in the hearings on Science, Technology, and the Economy, cited.

The whole subject of peaceful uses of atomic energy, proliferation of nuclear technology and the role of MNC's and their effect on national security needs to be studied.

h. Chemical Industry: Both the Stobaugh and the Conference Board studies in the Commerce Department's The Multinational Corporation, Volumes I and II, cited, contain analyses and case histories of foreign investment in the chemical industry.

The Tariff Commission report to the Senate Finance Committee on the "Implications of Multinational Firms," cited, also contains rather detailed tables based on data selected from corporate interviews and questionnaires. These tables map the impact of MNC's on labor in the United States. In a field where little hard data is available, this compilation should be interesting to researchers.

Layton's Trans-Atlantic Investments, cited, contains an analysis of the impact of foreign investment in the chemical industry in Europe that is also quite interesting.

The Trade Policy Research Centre in Great Britain published in 1971 a study on the chemical industry which provides an assessment of impact which free trade treaties have on the chemical industry in the United Kingdom, the United States, and West Germany? Professor Jules Brackman of NYU examines the internationalization of the chemical industry in his book, The Economics of the Chemical Industry?


There is no known study on the interrelationship between the chemical industry, the MNC's and national security.

i. Heavy Industry: Studies of the role of the MNC's in heavy industry are found in the U.S. Tariff Commission study and in the Stobaugh and Conference Board Commerce Department studies, all cited. A study of the steel industry is found in Layton's Atlantic Institute work.30 Imports of steel, particularly Japanese imports, have come under scrutiny by the Senate Finance Committee.31 The American Iron and Steel Institute (AISI) has published several articles on the steel import problem, which deal with the imports of steel and our national security. Steel industry spokesmen have argued that unless the rising trend of steel is arrested, there will not be enough continuing investment in additional steel producing equipment to prevent critical bottlenecks in the nation's defense preparedness.32 The situation has eased somewhat in the past two years and the recent devaluations have benefitted the competitiveness of American steel in world trade.

The steel industry is traditionally a nation-based industry, few steel companies having expanded internationally, except to secure raw materials. Although the industry is important to national security, and the extent of dependence on foreign sources is important, this is a question of trade policy, and not a function of MNC's.

B. Effects on Military Technology

1. Research and Development

A decade ago the Danish economist, Erik Hoffmeyer, studied the pattern of U.S. trade and found that U.S. exports of "high technology" products had increased twenty times in the period between World War I and the mid-fifties, while exports of traditional goods merely trebled.33 This impact of technology and research and development (R&D) raises some issues of national policy. The MNC's tend to be among the most innovative enterprises, and therefore play an important role in the area of R&D.

There are several important sources of information available on the R&D role of MNC's. Jack Behrman of the University of North Carolina

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30 Layton, Trans-Atlantic Investments, cited.


32 The Steel Import Situation, speech by George A. Stinson, Chief Executive Officer, National Steel Corporation, June 29, 1970, AISI Public Affairs Luncheon. See also The Steel Import Problem, AISI, New York, October, 1967.

33 See Policy Aspects of Foreign Investment by U.S. Multinational Corporations, p. 31 in The Multinational Corporation, Department of Commerce, cited.
has studied their effect on the development of local research and development facilities in Europe.\(^\text{34}\)

He concludes in part that:

The multinational enterprise helps the host country reach a higher level of technology. But it also raises problems of a claim on national resources for research. And it leaves a major problem of who controls the results of the research. So long as domestic ownership and control over key sectors and key technology are not achieved, national governments will feel threatened. The conflict of ownership will become increasingly important even though the research base is expanded by the activities of the multinational enterprise. The multinational enterprise cannot reduce tensions by responding inducements to place research activities abroad, for the absence of domestic ownership and control is likely to become an even more serious source of tension.

Similarly, John Dunning has studied local R & D by foreign MNC's in the United Kingdom,\(^\text{35}\) A.E. Safarian has studied it in Canada,\(^\text{36}\) and Donald Brash has studied it in Australia.\(^\text{37}\)

The Proceedings of the 1970 Symposium of the National Academy of Engineering contains much information on the research and development factor in technology. Of particular interest is Dr. Michael Boretsky's


article on the "Concerns About the Present American Position in International Trade." 38

Dr. Boretsky has also conducted several studies for the U. S. Commerce Department analyzing the relationship between research and development and trade performance. Boretsky argues that for the past few years the United States has been losing its technological leadership in the production and export of high technology items that require intensive research. He attributes this decreasing competitiveness to the increasing intensity of foreign R & D efforts, slower rates of productivity increase in the U.S., the ability of foreign countries to readily adopt "old technology", exchange rates that put the United States at a disadvantage, and the ability of foreign countries to purchase and assimilate relatively new technologies from innovator countries. Dr. Boretsky's thesis—that if the trend of decreasing U.S. competitiveness is not reversed soon, the United States will face a continually worsening balance of payments and competitive situation—was not universally accepted, however, at the time.

Professors Robert Stobaugh and Raymond Vernon of the Harvard Business School have also investigated the research and development factor in international trade and have advanced the theory of the "product cycle". The "product cycle" starts as a product is developed for the U.S. market; it proceeds to the point where the product is exported abroad. The product is then licensed and general manufacturing begins as the technology is diffused overseas. The final stage of the cycle begins as the competition becomes keener and production moves to countries with low costs of export, at which point the U.S. MNC has little choice but to invest abroad or lose its market to competitors. 39

38 Michael Boretsky, "Concerns About the Present American Position in International Trade," pp. 18-66, and also the article of J.R. Pierce and E.C. Fubini, Technology and International Trade, Proceedings of the National Academy of Engineering, 1971. Professor Boretsky's line of research has also been followed by Professor Donald Keesing who found a strong correlation, industry by industry, between sales and the U. S. share of OECD country exports of manufactures and the U. S. expenditures for research and development. See Donald B. Keesing, "The Impact of Research and Development on United States Trade," The Journal of Political Economy, The University of Chicago Press, Vol. 73, No. 1, February 1967.

Both Behrman and Servan-Schreiber have noticed that the contribution of U.S. subsidiaries in Europe (as a proportion of output produced) is most pronounced in two areas: first, the science-based or research-intensive industries, industries that supply both producer and consumer goods; and second, industries subject to economies of scale and producing goods within a high income elasticity of demand. Gruber, Mehta, and Vernon in an article in The Journal of Political Economy noted that the four most research-intensive industries of the United States spent more than 2½ times the amount spent by 14 other industries for new plant and equipment in Europe. Moreover, they concluded that these four "knowledge" industries (i.e., computers, instruments, electronics and chemicals) act as a catalyst for growth that outweighs the normal spill-over from the initial demand-stimulating effects. All four, it should be noted, are significant from the standpoint of military technology and production and highly concentrated in MNC's.

The Williams Commission Report to the President, the Tariff Commission Report on the "Implications of Multinational Firms for World Trade and Investment and for U.S. Trade and Labor," and the Commerce Department's collected studies on The Multinational Corporation, all cited, contain sections that refer to research and development efforts of the multinationals. The Organization for Economic Cooperation and Development (OECD) has studied the problem for a long while, particularly in reference to the technology gap between the United States and Europe. The House Committee on Science and Astronautics hearings on "Science, Technology and the Economy," cited, cover many of the broad issues that involve research and development as an aspect of competitiveness.


It is noteworthy that of all of the literature mentioned above, none bears significantly on the specific issue of national security except as this may be indirectly related to international economic competitiveness. Victor Basivik, in a book published by the Foreign Policy Association refers only briefly to the security issue, despite its title, Technology and World Power. George A. Lincoln in the Economics of National Security, cited, discusses R & D at length but there is no reference to the MNCs' contribution to (or detraction from) the national security interests of the United States. Hitch and McKean's The Economics of Defense in the Nuclear Age, cited, likewise contains an excellent analysis of the relation of military research and development to national security, but it does not refer anywhere to the multinational corporation, or the potential problems created by the transfer of technology abroad, discussed in the next section.

Despite the paucity of specific information on the interaction of MNCs with the national security and military technology, the argument is sometimes made that the diversified base of the MNC permits an economy of scale in research and development which may benefit the general state of U.S. technology and thus have some military applications.

2. Transfer of Technology

The United States has transferred its technology and its know-how to other countries through various means--foreign assistance technical aid; the licensing of patent rights and sale of industrial know-how; and the expansion of U.S. direct investments abroad. In recent years, with our deficits in the balance of trade, the question has been raised as to whether this "export of technology" doesn't harm the United States in the long run by selling and giving away its technological superiority and undercutting the competitive strength of our exports and our ability to compete with low-cost imports.

This concern has been manifested through several legislative proposals whose avowed purpose is to control the dissemination of technology and prevent economic dislocation, unemployment, and plant closings, which are the result of technological imports. The most controversial and well-known of these proposals is the Hartke-Burke bill.\(^4\) Section 602,

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would give the President the authority to prohibit any holder of a U.S. patent from manufacturing the patented product abroad or licensing its use outside of the United States, if in his judgment, the prohibition would lead to increased employment in the United States.

Organized labor spokesmen have been particularly active in raising objections to this "export of technology." 45

Industry spokesmen, on the other hand, argue that the diffusion of technology helps the United States economy by permitting more effective access to overseas markets and that the fees and royalties earned from licensing agreements and other arrangements have totaled nearly $23 billion from 1969 to 1972. It is also argued that controls are self-defeating, since foreign countries will either buy it elsewhere or develop it themselves, and that in some cases patent protection abroad does not apply if the patent is not worked. They also point to the general futility of attempting to limit the flow of scientific and technical information. 46

The transfer of technology issue has brought forth substantial congressional testimony; and the Subcommittee on Science, Research, and Development of the House Science and Astronautics Committee has held hearings for two years which have provided a very large source of information and opinion.

The Department of Commerce studies on The Multinational Corporation, cited, are also invaluable in researching the transfer of technology question. The Department of Commerce study concludes:

In sum, the regulation of technology should not be looked to as a significant response to U.S. balance of payments or domestic employment problems. Such a policy would not be impossible to implement, and


might cause some short-term gain, but it seems doubtful that the gain would equal later losses. The type of program posited would, of course, influence its reception in the world, but the net effect would most probably be only to encourage additional foreign efforts to develop their own new technologies and to independently imitate those of the United States.\(^1\)

The one other major study is that of the Tariff Commission, done at the request of the Senate Finance Committee. Noting that MNC's accounted for 90 percent of the royalties and fees flowing to the United States in 1971, the Tariff Commission study considers that the gains offset any losses and finds that, in fact, the MNC's do not export their most advanced technology either to their own affiliates or to unaffiliated foreigners, but rather retain it initially at home.

In the academic world, there is also a large body of research on the general question of transfer of technology, the so-called "technology gap," and the role of technology and know-how in economic development.\(^2\)

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Although the importance of technology to military capabilities and hence to national security is generally recognized, very little in the literature noted above has dealt with the problem. Books such as Lincoln's *The Economics of National Security*, of course, do consider military technology, and Raymond Vernon's essay on "The Multinational Enterprise and National Security" raises the subject of technology transfer as a matter of "national interest" but not national security.

As nearly as this survey has been able to determine, there is very little discussion of the "spillover" of international transfer of business technology into the military area. This might be a subject for fruitful research.

3. **National Security Controls on Technological Transfer**

The 1917 Trading With the Enemy Act is the basis for regulations imposed by the Treasury Department which prohibit persons subject to the jurisdiction of the United States from entering into transactions with nations of an enemy country.\(^9\)

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J. Tilton discusses the transfer of technology and its subsequent effect on this technology gap and American competitiveness in the electronics industry. See J. Tilton, *International Diffusion of Technology: The Case of Semiconductors*, Brookings Institute, 1973. The United Nations Institute for Training and Research (UNITAR) has produced a voluminous body of literature on the role of MNC's in technological transfer to the LDC's and in specific industry groups.


The Export Control Act permits the President to prohibit or curtail the exportation of any items or technical data in order "to further the foreign policy of the United States and to aid in fulfilling its international responsibilities" and to exercise the necessary vigilance over exports from the standpoint of their significance to the national security of the United States.50

The Munitions Control Act51 prohibits the sale of munitions without approval of the State Department, and the Battle Act provides for a cutoff of funds if a foreign country permits exports of strategic items to prohibited destinations52

There is a very extensive literature on these laws and their applications and on the various government procedures that have been developed. Regular annual reports are issued, for example, on the administration of the Battle Act53

The relevance of national security to this subject is fairly clear; for example, the transfer abroad of the "gaseous diffusion" technology or space satellite related technology could be applicable to nuclear or missile programs of a potential enemy--or simply to an "Nth" country, increasing international instability. And it is U.S. policy, as noted previously, to discourage the proliferation of modern nuclear-missile capabilities.

There is, however, debate on the adequacy of such controls54 Another controversial area is the interaction between strategic and "competitive". The recent GE-SNECMA licensing controversy is a case in point. The initial denial of license to a French firm to produce GE engines was based on the claim that it involved the same engine technology used in advanced military aircraft such as the B-1 bomber.

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50 Export Control Act, October 15, 1970, Pub. L. 91-452, Title II, Sec. 250, 84 Stat. 931 (Title 50 App Sec. 2026) See Quarterly Report on Export Controls, Department of Commerce.

51 The Munitions Control Act, Title 22, Chapter 26, Sec. 1934, Mutual Security Assistance.

52 Battle Act, Sept. 4, 1961, Pub. L 87-195, Pt. IV, Sec. 703(a) 75 Stat. 463 (Title 22 Sec. 1613d), Mutual Defense Assistance Control Act.


54 See for example the testimony of Andrew Biermiller before the Senate Finance Committee, Subcommittee on International Trade, cited, in which he notes that the United States has permitted the transfer of military technology abroad through licensing and sales.
The French, however, apparently felt that the decision was motivated by competitive considerations. The subject escalated to the summit level, and President Nixon apparently agreed with President Pompidou at the Iceland summit that the decision would be reversed.

Although most of the literature described in the preceding sections and others discussed the control of technological transfers in considerable detail, they did not really address the national security aspects. This does appear to be an area where more serious research could be profitable, although it is not known to what extent government agencies have or are examining these questions.

The key question is whether the inherent flexibility of the MNC in the many different jurisdictions in which it operates, enables it to bypass the U.S. control structure described above. Surprisingly, we have not found this question extensively dealt with in the MNC literature. It should be noted, however, that the laws apply to persons, including corporations, over which the United States exercises jurisdiction, and these include the American parent corporations. By virtue of their control over foreign subsidiaries, the laws are interpreted to apply to U.S. MNC's worldwide on an extraterritorial basis. (Indeed the argument is made that these laws also apply to foreign corporations doing business in the United States.) Although, as noted later on in this survey, the extraterritorial aspects of controls do occasionally generate interstate political frictions, most American-based multinationals generally

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55 In The Economics of Defense in the Nuclear Age, cited, Hitch and McKean argue that in some cases, control of technological information is synonymous with national security. They noted that a "few years of superiority may be decisive." The potential asset represented by military technology is suggested by looking at how U.S. security would be affected if the Russians had the technological initiative and the U.S. was forced to follow their developments, let us say of missile systems with a lag of several years.


follow U.S. law on these topics as a matter of course, although they are constrained to avoid potential confrontations with the government in each area in which they operate. In conclusion, the question of bypass of controls may appear to be a "non-problem"; but more research would be necessary to validate such a judgment.

4. Dependency on Foreign Know-How and Technology

Although the Tariff Commission study notes that the United States exports far more technology than it imports, many significant industrial processes have been developed abroad—for example, the oxygen process for steel refining, the jet turbine and Wankel engine. The two-way flow of technology is highlighted in the discussions of this general topic.

There is at least one executive who feels that the United States may soon become a net recipient and Europe a net exporter of technology. Antonie T. Knoppers has argued that some MNC's whose activities are technology-oriented often resist innovation. Knoppers maintains that we will soon see a major "reverse transfer of technology" and the United States will become dependent on Europe for our technology. This trend to resist innovation is also seen by former Assistant Secretary of Commerce Myron Tribus. He says that creative breakthroughs most often come from outside large corporations for simple reasons: creative ideas rock the corporate boat; and if too many approvals are required before an idea can bear fruit, the probabilities are overwhelmingly against it. This view that small corporations have an advantage because big ones are hidebound has also been developed elsewhere.


61 Donald I. Baker, Hearings before the Subcommittee on Science, Research and Development, House Committee on Science and Astronautics, Science, Technology and the Economy, previously cited.
The question is whether the United States might someday become dependent on foreign know-how for military technology or production. We have encountered no arguments in the literature that this is the case, although it is conceivable if certain types of industrial operations should be transferred entirely outside the United States, whether because of foreign-developed technology or technology transfer by U.S. technology developers. In this connection, the Tariff Commission, in its study of the imports of firms utilizing items 807.00 and 806.30 of the U.S. Tariff Schedules found that during 1966-69, the volume of item 807.00 imports of capacitors increased twenty-fold, transformers six-fold, electronic memories more than tripled, and scientific instruments doubled. The Commission found that imports of aircraft parts (primarily wing and tail assemblies and fuselage panels), semiconductors, aluminum mill, and copper mill products imported in 1969 under Schedule 806.30 accounted for 71 percent of the total value of all 806.30 imports. All of these components in some way contribute to the military and industrial production base. The Tariff Commission does not give any data comparing the proportion of imports under Schedules 807 and 806.30 to the overall domestic consumption of such items, but certainly the amount appears to be significant.

The Office of the Chief of Naval Operations (CNO) has also done a statistical analysis of our dependency on foreign sources in an annual report, U.S. Lifelines: Imports of Essential Materials. While this study does not cover the dynamics of the situation, it does point out on which items we are particularly dependent.

More research into the dependency on foreign production of technologically advanced and militarily significant items might develop the national security implications further.

C. Effects on National Control of Information

Thus far we have been talking about technology, but the general subject of "information" also should be mentioned briefly. This ranges from management techniques to systems analysis as a defense management tool. The Department of Defense has long maintained a program to assist allies in the development of their own capability for modern defense analysis and management, and presumably it is not beyond the bounds of possibility that one may someday see exchanges of information with the Soviet Union about defense management techniques! The point is that the "software" must be included along with the "hardware" in considering the general subject of strategic controls. On this point, too, there is relatively little reference in the literature to national security implications. Some further references are made to this subject in Section III D on Economic Warfare.

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62 U.S. Lifelines: Imports of Essential Materials, Chief of Naval Operations (CNO), Department of the Navy, Washington, D.C.
Finally, there is the question of information in the intelligence sense; not necessarily clandestine, but general political-military-economic data plus information on key political personalities. Here the MNC does have a role—one which we have not found developed in any of the literature. There is, of course, an interaction between U.S. corporations abroad and U.S. embassies, especially in the commercial sections. This is a two-way street, since the purpose of the commercial attaché is to help U.S. business. The experience of many knowledgeable businessmen, however, suggests that they often know more about the countries in which they are operating than do the U.S. government agencies with which they come in contact. Thus MNC affiliates around the world do provide a potential "intelligence asset" and this is equally true for foreign multinationals operating in the United States and elsewhere. There is, of course, considerable sensitivity to corporate identity with the U.S. Government, and most businessmen are concerned to avoid offending host country sensitivities. The role of the MNC in acquisition and dissemination of information, therefore, may be substantially less than feared by critics of the MNC.

D. Effects On Availability of Critical Raw Materials

U.S. dependence on foreign sources for nonagricultural raw materials is currently growing rapidly, and is of major concern. Some projections estimate a net minerals import bill of over $60 billion in the year 2000 (at 1970 dollar values, per the Department of Interior). A more short-term estimate is for a gross $16 billion of mineral imports in 1985 (per the Bureau of Mines); similarly high estimates have come from other sources, all in contrast with $4 billion net and $5 billion gross of mineral imports in 1970.63

Even more frequently commented upon is the crucial dependence of the United States on foreign petroleum sources, expected to reach nearly 50 percent of domestic petroleum consumption by 1977-1980. In 1985 this may amount to imports of at least 8 million barrels of oil per day, and perhaps 19 million, costing an estimated $4 to $5 per barrel, and yielding an estimated import bill totalling from $11.5 to $35 billion annually.

Judging the validity of these various estimates is beyond the scope of this paper, although it should be noted that the final report of the National Commission on Materials Policy has concluded that:

The import bill for materials in 1985 may thus be in the $25-30 billion range compared with $10.6 billion in 1972. Assuming appropriate policies with respect to prices, research and development of substitute processes, conservation and recycling, the import bill might be $20 billion or less. Estimates in the $45 billion range result from assumptions that appear to be mutually inconsistent or unreasonable.64

Regardless of changing tastes and consumption demand, new technological developments, and unforeseen market forces, it is certain that the United States will be highly dependent on foreign sources for the mineral and fuel supplies essential to modern industry--and to military capability and national security as well. Whatever methods are utilized to solve the balance of payments problems accruing from this dependence (see the discussion of MNC contributions to the U.S. balance of payments below, under Economic Effects), this dependency has major national security ramifications.

In the narrow military-capability definition of security, the first question is whether the United States can obtain, in time of need, raw materials in sufficient quantity to maintain its military arsenal. The second would be, in a broader, economic warfare category of security, whether raw material supplies essential to the orderly operation of the domestic economy will be regularly available or whether they could be arbitrarily cut off, causing at the very least, serious sectoral economic dislocation. The third is a more general question of whether there will be production of sufficient incremental quantities of raw materials to provide not only for the U.S. military and industrial production base, but simultaneously for the burgeoning worldwide demand for raw materials, so that harmful political and economic competition for sources can be avoided.

Three somewhat distinct although overlapping categories of raw material shortage can be discerned for the United States. First and most critical are those items which are unavailable in the United States, or nearly so, and which have almost irreplaceable application in defense and other technology—for example, platinum, mercury, and chromium.

On a second level would be those materials which are available in a limited quantity in the United States, have vital industrial applications and a lack of ready substitutes, and for which a sudden loss of foreign supply would disrupt the U.S. industrial economy, even though available domestic supplies could be wholly or partly diverted to military use during the period of shortage. Included in this category would be petroleum, copper, nickel, lead, manganese, tungsten, and others.

The third level of shortage would include those raw materials of which domestic production is not currently economically feasible or desirable in sufficient quantities, primarily because domestic reserves are far less rich and therefore far more costly to exploit than foreign reserves. The lack of available foreign supplies of these goods would affect the national security by disrupting production until less economical domestic exploitation was tooled up, and by making the United States less wealthy in a real income sense. Items in this category could include aluminum (for which foreign bauxite for refining is preferred to domestic high-alumina sands), petroleum (despite rising OPEC oil prices, Mid-Eastern oil is still more economical than exploitation of the vast U.S. oil shale and tar sand resources), copper, and iron ore, among others.
These broad levels of national security importance depend on one important point: there are probably very few, if any, specific items in the inventory of mineral and fuel raw materials which are absolutely irreplaceable by substitutes—if the added costs of substitution are accepted. Examples abound of technological substitution born of necessity. A prime example is the World War II development of butyl rubber to substitute for inaccessible supplies of natural rubber after the Japanese captured the Malay Peninsula. Autarchy, however, is in most conceivable cases an uneconomic national policy, in that it theoretically would result in a less than optimal final production and consumption mix from a given set of national resource inputs than that available through trade. Any set of policies requiring raw material independence regardless of cost is similarly wasteful—although possibly desirable from the narrowest military self-sufficiency viewpoint.

The inevitably increased U.S. dependence on the outside world for raw material inputs and its concomitant negative national security effects lead to several considerations of the MNC's effect on the availability of critical raw materials.

It is obvious that a large part of the world's mineral and fuel wealth is located in poor, sparsely populated and/or underdeveloped regions—in contrast to the coal and oil of Pennsylvania and the iron of the Ruhr and the English Midlands, which are politically and geographically within advanced industrial/financial areas. There is, for example, the copper of Chile and Zambia, the oil of the American Southwest and the Arabian peninsula, the diamonds and gold of South Africa, the platinum of Rhodesia, the rubber of Malaysia, and the bauxite of Jamaica, Surinam and Australia.

The essential characteristics of these natural resource regions have necessitated inflows of investment for mineral and petroleum exploitation from the developed industrial regions. These countries are in the advanced category in part because of an initially suitable mix of resource endowment, which has been exhausted or outgrown.

Raw materials investment was historically carried out under various political umbrellas—originally under a regime of colonialization and political imperialism, later under various forms of economic penetration, often involving substantial although informal control of supplier areas. In the past several decades, as the colonial era ended and independence came to virtually all former colonies, raw materials were developed and financed through the agency of multinational corporations engaged in minerals and petroleum. Of course, through all periods of development of resources

65 See National Commission on Materials Policy, pp. 9-23 to 9-26, for a discussion of raw materials and national security. Also see Schmitz, "The Economic Content of National Security Policy," cited, for an analysis of raw material dependency completely different from the assumptions of this paper.
in the less developed countries, most of the investment was carried out by private corporations—but in the post-World War II era particularly, the various multinational firms operating on their own, without the formal cover of political control of the resource area by their parent states, have provided development of new raw material supplies.

Currently a new stage of natural resource development can be seen evolving throughout the world. The LDC's have in many instances decided that MNC's extract more benefits from their mineral or fossil fuel activities than they provide the host state—and a round of expropriations, local participation requirements, and hard bargaining for the lion's share of the profits has set in. Examples are Chile, the Andean Pact countries, and OPEC's relationships with MNC investors in their raw material resources. The difficulty with these government-business adversary relationships is that the LDC's cut off not only outward profit repatriations but also the further inward flow of new business investment from the advanced areas, for further development of their resource as well as manufacturing sectors—and it is uncertain that they have captured enough additional current profits to substitute home-generated new investments. Unfortunately this half of the equation is often overlooked in the fervor of nationalism.

The questions about MNC effects on availability of critical raw materials in most part have been neglected in the literature—which is of course extensive on the general problem of investment in the developing countries, and on the "energy crisis" aspects.

A first question is whether MNC activities in developing raw material resources abroad tend to unduly increase U.S. dependency on foreign raw material sources. That is, without avenues for investment in more economic foreign resource deposits, would U.S. corporations have developed less rich domestic deposits, yielding a greater national self sufficiency? The answer hinges in part on the nature of foreign direct investment—does it displace or supplement investment by foreign owned firms? Further, the answer relates to general trade policy—in a relatively open economy, unfettered by protective tariff walls, foreign raw materials would have entered the U.S. without foreign direct investment by U.S. firms. But the speed of development of foreign sources probably would have been retarded without the MNC's with access to the capital available in the United States.

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67 See James E. Akins, "The Oil Crisis: This Time the Wolf is Here," pp. 462-490 in Foreign Affairs, April 1973.
The answer to this question, which has generally not been considered because of its economics textbook simplicity, is that the MNC investment has followed the paths of economic rationality, of least cost (and highest profit) resource exploitation. The alternative to the profit motive behind MNC activities leading to foreign dependence is a national policy of semi-autarchy, of tariff walls and subsidization to encourage or force use of high cost, uneconomic, domestic materials and substitutes. If national security, in a narrow sense, is thought to require such autarchy, it must be (and at times has been) specified and implemented on a national policy level, setting conditions which change the entire nature of business activities and the U.S. economy. The history of U.S. petroleum quotas is a case in point, but the current literature has few references to the "autarchy" issue, having consigned it to past periods of history.

The second question is more complex and uncertain. Are multinational corporations the preferable vehicle for making critical raw materials available for the United States? That is, do they best insure timely development of incremental resources; do they best insure stable and secure supplies of critical raw materials; do their activities as the agency of supply present the best long-term mode of reliance for the United States?

The first aspect is dealt with adequately by the general literature on MNC's and indeed by the normal assumptions on the desirability of a private market economy, with decentralized and competitive decisionmaking. By seeking to satisfy demand and realize a profit, private economic activity has engaged in high-risk activity, such as geologic exploration and mineral prospecting, and in investments to develop located deposits when they promise to be marketable. Indeed, the existence of numerous competing MNC's in the raw material business insures that new sources are searched out, rather than monopolistic profits being garnered by a single supplier sitting on a previously discovered and presently worked deposit or region.

The stability of supply of MNC-worked raw material deposits abroad is a less certain point, given today's ambiguous political climate in the producer countries. Without political interference, MNC's presumably would follow the profit motive and continue to supply, at the world market price, but it is unlikely that the United States would enjoy preferential prices for materials developed by U.S.-based MNC's. (On a balance of

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68 See Joseph Akins' "Dissolving Relationships Among the Oil Companies, the Oil Producing Governments, and the Major Consumers: Confrontation or Cooperation," pp. 75-94, in World Energy Demands and the Middle East, 1972 Annual Conference Record, the 26th Annual Conference of the Middle East Institute, Washington, 1972.


payments basis, however, foreign mineral supply by U.S.-based firms is probably preferable. The corporation profit component of the world price will accrue to the U.S. balance as repatriated earnings, and the capital goods used for resource development will more likely be of U.S. origin, thus aiding U.S. exports.)

Delicate political interaction between host governments and MNC's, however, has become a permanent factor with which to reckon. At one level it has eroded the possibilities of MNC's engaging in intracorporate transfer pricing arrangements that permit the bulk of the profit between extractive cost and royalties, and the world price to be realized in the United States rather than in the LDC producer country, subject to its taxes and repatriation restrictions. The LDC's have become too sophisticated to be satisfied with a small slice in royalties when they can garner most of the pie; and at this time the economic rents appear to accrue in large part to the LDC governments and not the MNC's parent home office and parent country balance of payments. This aspect is fairly well presented in the business and economic literature.69

A second level of political interaction has to do, of course, with the threat and reality of foreign host country takeovers and rigid new local participation requirements. Natural resources have always been considered a unique national patrimony, and the participation of foreign MNC's in their exploitation is increasingly challenged by burgeoning national prides often stimulated by demagogues for their own purposes claiming neo-colonial exploitation of the host country. As noted in Section II, there is a substantial literature on MNC-LDC conflicts.

In this environment, the multinational corporation cannot always be considered a secure and stable supply of critical raw materials, for its investments may be confiscated and its established pattern of shipments to the United States disrupted with scant prior notice. The problem lies, however, not so much in the nature of the MNC, as in the irrationality of nationalism, which sometimes overrides economic logic in the production and sale of resources by LDC's to the world market.

The answer to the question of secure long-term supply of raw material inputs to the United States therefore lies in the virtue of alternative resource exploitation arrangements. Presumably, in the absence of irrational motivations, the security of supply will hinge upon the economic advantages accruing to the supplier state. If multinational corporations provide, in the current or an evolved relationship, superior advantages to the host country—through economic development stimulation, contributions of private development capital, education of an industrial working force, balance of payments...

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gains, and the like—then the current relationship will be continued, and MNC raw material exploitation will provide the United States a secure supply.

Other exploitation arrangements than those involving the MNC-host country relationship may be more conducive to a secure, long-term source of supply. In some cases, the extra cost to a major importing country, such as the United States, may be warranted by the added reliability. The current Japanese overtures and agreements with the Arabian peninsula oil-producers to provide major capital investment in non-oil industries in exchange for long-term petroleum supply concessions are a case in point, as is the discussion of joint U.S.-Japanese development of Siberian resources. U.S. efforts to develop a "special relationship" with Iran are another. These extra expenses, concessions and national political involvement may seem particularly necessary for the Japanese, with their absolute domestic shortage of alternative petroleum sources.

Other nation-to-nation agreements and understandings may be appropriate to the United States as well—but this field has only hesitatingly been explored, and detailed analyses are lacking. On the general topic of relationships of MNC's with the LDC raw material producer states, the two major viewpoints are represented by Jack Behrman, who is oriented to continued presence of MNC's adapted to changing investment climates; and from Albert O. Hirschman, a proponent of LDC divestment of resource-exploiting foreign firms.

The entire problem, however, seems to require lengthier study, focusing on the national security importance of resources and the special role and problems of the MNC. A preliminary conclusion would be that there is little in the involvement of MNC's in supplying raw


materials which is deleterious to U.S. national security and some that are helpful. But the key question may be that of U.S. dependence on foreign sourcing which would require major study and in-depth analyses of available materials beyond the scope of this survey.
II. THE POLITICAL EFFECTS OF MULTINATIONAL CORPORATIONS

The degree to which MNC's are a source of conflict or stability in the international system is one of the major research topics emphasized by the academic community. This is affirmed by the fact that the Foreign Policy Research Institute's annotated bibliography, "Multinational Corporation--Nation-State Interaction," lists 714 items in the broad area. Very few of them, however, concern "national security," so that the interaction is indirect via the effect on political attitudes and potential frictions.

A. MNC's as Sources of Conflict

1. Conflicts Between the MNC and the Nation-State

These can be divided into concerns and problems of the host country on the one hand, and of the "home" country on the other. The literature generally distinguishes between the advanced or industrialized host countries such as Canada, Western Europe and Japan, and the developing or third world countries. (It should be noted in passing that as of 1971, U.S. direct investment overseas was divided roughly three-tenths in Canada, slightly more in Western Europe, one-fifth in Latin America, and one-fifth in the remainder of the world. Only two percent of all U.S. direct investment is in Japan.)

Since the research in these areas is often overlapping, it is useful to review it as a whole, in terms of the major centers of research.

M.I.T. scholars were among the pioneers in the area of MNC research, notably Professors Kindleberger\(^2\) and Robinson\(^3\) with an initial emphasis on the business management aspects of MNC-host country relations, and general economic development.\(^4\)


The most prolific research project has been the Harvard Business School multinational corporation project under the general direction of Raymond Vernon with the help of Robert B. Stobaugh and others. Under the first phase of the study, concentrating on the operations of U.S.-based MNC's, at least a half dozen books, including Sovereignty at Bay, five summary volume, two dozen Ph.D. dissertations, nearly 100 articles, plus numerous working papers and data compilations have been issued. Although Vernon himself has concentrated most recently on the conflict between the MNC and host country sovereignty, other sectors of the research have covered both the business management problems posed by these conflicts and considerable econometric work, as well as the compilation of much data on a representative sample of U.S. corporations.

Professor Jack Behrman, formerly Assistant Secretary of Commerce, has had a small research project underway at the University of North Carolina of which he is the principal researcher. His book, National Interests and the Multinational Enterprise, explores the area indicated by the subtitle "Tensions Among the North Atlantic Countries." It is noteworthy that Behrman touches on national security only in passing and tends to equate it with national economic control. His research, like that of most other writers, tends to identify such "sore spots" as size (giant-ism), concentration in sensitive industry sectors and products, competitive behavior, obstacles to national economic planning, preemption of high technology R & D, and in particular, the destabilizing effect of capital flows and banking and financing developments, such as the Euro-dollar market, which are not under effective national control. Behrman's quotation of objections raised by European leaders such as Franz Josef Strauss and Prime Minister Pompidou confirm that the range of objections during the late sixties mostly concerned alleged "colonization" of Europe, or certain key sectors, by American investment, and thus were political and economic rather than security.


The New York University Graduate School of Business Administration also has a broad research program on "The Multinational Firm in the U.S. and World Economy," (which has included some cooperative research with IEPA's Center for Multinational Studies in Washington). At NYU, Professor John Fayerweather has done a comprehensive study of attitudes toward foreign investment in Canada and some European countries. Jean Boddewyn is doing extensive research on similar attitudes in Western Europe, particularly in Belgium, and numerous studies of the economic effects of MNC's have been undertaken by faculty members and graduate students.

The University of Pennsylvania also has undertaken a major project at the Multinational Enterprise Unit of the Wharton School of Finance. This project is under the direction of Professor Howard Perlmutter, who has contributed a number of articles to various scholarly quarterlies. It is understood that this research is currently contemplated to include an extensive series of interviews with business leaders to determine how they would react to various nation-state - MNC conflict situations, but publication plans are not yet known.

The Foreign Policy Research Institute in Philadelphia (no longer affiliated with the University of Pennsylvania) under the direction of William Kintner, has published the comprehensive bibliography previously noted and a number of scholarly articles. The Institute's ongoing research will look at particular conflicts surrounding MNC activities in both host and home countries. It is possible that a number of "national security" implications may be developed in the FPRI and Wharton projects.

The above listed research centers are of course also spawning a considerable body of Ph.D. theses, and the subject of MNC-host country relations and conflicts, especially in the developing

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8 Examples are the two Center Occasional Papers by Professor Robert Hawkins cited elsewhere in this paper.


10 The list is by no means inclusive; other centers of activity are the University of Chicago and UCLA Business School of the Economics Department; but these have so far been more oriented towards the business and economics-finance area.
countries has been a popular student topic. The general subject of "development economics," which was popular with a generation of graduate students in the fifties and sixties, has now shifted more into the MNC area; and there will be no dearth of research in this general area, albeit of uneven quality and varying scope.

A principal issue is the role of foreign investors in the extractive industries (minerals, petroleum, etc.) in the less developed countries. Here a body of thought has developed to the effect that the developed countries and their multinational investors have been, in effect, robbing the less developed countries of their only significant natural resources on unfair terms. This is, of course, the battle cry of nationalist sentiment throughout much of Latin America and has been the principal cause of numerous investment disputes. (It should be noted here that the State Department has compiled a useful listing of expropriations involving U.S. firms.)

A leading academic proponent of "divestment" of foreign direct investment in the developing countries in the long-range interest of both host and home countries has been Albert Hirschman of Princeton. His monograph on the subject has been answered by, among others, Jack Behrman in a paper issued by the National Planning Association.

In summary, the LDC host country concerns are well documented in the literature. One possible research project would be a detailed review of the literature, and particularly the surveys of opinion, to


12 Office of Economic Research and Analysis, Bureau of Intelligence and Research, Nationalization, Expropriation and Other Takeovers of United States and Certain Foreign Property Since 1960, RLCS-14, U.S. Department of State, November 30, 1971. An updated listing is currently in preparation but the date of availability is not yet known.

13 Albert Hirschman, cited in Section I-D.

14 Jack Behrman, Looking Ahead article, cited in Section I-D.
try to determine the extent to which security considerations, not overtly identified as such, may be implicitly involved in many concerns expressed about loss of economic control, the issue of corporate power versus national sovereignty control, the question of transferring resources from LDC’s, and alleged unfair tax and transfer pricing practices. The purpose would be to determine whether the concept of "collective security," or some modified version, could influence political thinking along more positive lines in terms of a community of interest between host and home countries.

Turning now to the home country concerns, the principal objection appears to be the ability of an MNC to escape regulation. Most of the concern in this area is either economic, e.g., alleged "export of jobs," or loss of tax revenue, as dealt with in Section III, or involves the question of extraterritorial application of home country laws to overseas affiliates, discussed below. As noted in Section I, there are some national security risks (as well as gains) from the dispersion of production facilities abroad. Raymond Vernon notes that these do "raise questions about the internal sufficiency of the American industrial complex," but that "they are not very serious questions," in his view. Countries such as Britain and Sweden (which are host, as well as home countries) have produced some research on the home country perspective, but these have focused more on the economic aspects rather than on political security.

The problems dealt with in the foregoing section suggest that the MNC - nation-state conflicts are primarily problems for host governments and, from a management standpoint for the MNC's themselves. However, to the extent that such host-country problems as nationalism-induced expropriation or discriminatory treatment significantly cut back the home country's access to resources and the balance of payments income from foreign investments, then its economic posture, and at least indirectly its national security, may suffer, as discussed in Section III. This is especially true for the United States.


16 Professor John Dunning (The Multinational Enterprise, Praeger, New York, 1971) is one of Britain's most prolific MNC writers; other UK references are given in the NPA British-North American Committee bibliography (cited) United Kingdom section, which notes that there are relatively few government studies and proposals. The Swedish Government, however, is understood to be studying MNC's effects on Sweden's economy and national interests, both from the host and "home" country standpoint, via an inter-ministerial working group.
2. Conflicts Between Host and Home Countries

Here MNC's themselves are involved less as prime actors than instruments, sometimes as quite innocent bystanders in a clash of national policies. The classic case of such conflict involves an attempt by a home country to extend its valid jurisdiction over its own corporations to their overseas operations, amounting sometimes to claims of extraterritorial jurisdiction.

Highly publicized cases have arisen with Canada and other countries over U.S. insistence that foreign-based affiliates of its corporations must comply with U.S. strategic trade controls vis-a-vis China, Russia or Cuba, or that because of their only hypothetically competitive U.S. activities, the U.S. Justice Department would oppose mergers between two Swiss firms on antitrust grounds. There are also interstate conflicts over taxation policy, ameliorated, however, by a network of double taxation treaties or conventions. And an emerging area may be environmental and consumer protection controls—on which some useful research has been done by Professor Ingo Walter of New York University.17

There is an enormous body of literature dealing with the "extraterritoriality" problem, much of it understandably by lawyers. Georgetown University's Journal, Law and Policy in International Business, has been a forum for many articles in this field. One of the best is that by Seymour J. Rubin,18 Rubin agrees to the need for some consultative mechanisms, but casts doubt on the feasibility or desirability of international rules or codes such as those advocated by Professors Charles Kindleberger and Paul Goldberg.19 Professor Stobaugh of Harvard has also issued a proposal in this regard, published as an NYU Working Paper: "A Proposal to Facilitate International Trade in Management and Technology."20


A number of major international conferences have been held on related topics. A recent one (sponsored by the Institute for International and Foreign Trade Law of the Georgetown University Law Center), held at Dusseldorf, Germany, will be issuing papers on the general subject of international controls of investment later in the year. The thirteenth Strategy for Peace Conference at Airline, Virginia in October 1972 was devoted to "multinational enterprise and world security," and recommended self-restraint, codes of conduct, and eventually international arbitration and regulation.

It is significant that economists and political scientists tend to take the more serious view of the extraterritoriality problem as a potential cause of conflicts in the international system, while lawyers point out that these problems are nothing new in international relations, and that an entire body of international law has grown up under the heading of international conflict of laws, or private international law, to deal with them in accordance with established principles. Treaties are, however, useful vehicles for harmonization.21

The literature in this area is too vast to review in detail; but it does appear that a relatively few highly publicized cases have given rise to a disproportionate political outcry; and the potential for serious conflict depends on the sensitivity with which home countries seek to control these nationals' overseas affiliates. To be sure, conflict has been and can be produced with host countries by rigorous attempts to define policies for MNC affiliates contrary to host country wishes or policies. On the other hand, rather than seeking to enforce extraterritorial jurisdiction in an offensive, mandatory fashion, most modern industrial states have at their disposal such a variety of regulatory devices and pressures (ranging from taxes to licensing to administrative regulation) that the corporate headquarters of an MNC is inclined to comply with national policy insofar as possible, while trying to minimize conflicts with host countries which could jeopardize the status of its affiliate.

The major security implication here would occur in the event of a major conflict involving economic, if not military warfare. For example, if a conflict arose in which the United States were involved but the European countries or Canada were not, and if the United States were to try to use in the conflict the assets and influence of U.S. MNC affiliates in those areas, U.S. relations

with its allies would be subject to major strain. This area is, therefore, dealt with separately in Section III.D.

A more serious cause of conflict between the host and home country concerns the treatment of corporate citizens doing business abroad in terms of expropriation, nationalization, and discriminatory treatment, and retaliatory measures such as denial of aid or trade concessions. There is a substantial body of research and writing on this broad area going back to the days of "gunboat diplomacy" and "concessions." And here there may be both direct and indirect consequences for national security. An example of the former is the effect of expropriations on the U.S. sourcing of vital raw materials, already noted, or loss of military base rights as a result of investment disputes.

The indirect effects may be either economic, e.g., a decrease in the investment base from which income important to the national economy is derived, or political, namely that U.S. security can be affected by major conflicts with key allies, or strategic countries such as the Middle East, over investment disputes. To the extent that threatened loss of a major asset overseas, such as oil access, might lead to military intervention, other larger powers might also intervene, threatening serious military conflict. The Suez Canal seizure is a classic case in point.

Recent actions by Chile in nationalizing both the copper industry and certain ITT subsidiaries are also illustrative of the problem. This area has been the subject of important congressional hearings and promises to feature in several more, notably those of the Subcommitteee on Multinational Corporations of the Senate Foreign Relations Committee, headed by Senator Frank Church (D.-Idaho). One of the areas which the Church Subcommittee is considering is whether "there is a coincidence of interest between the U.S. MNC and U.S. foreign policy objectives in selected key areas of the world." It will not be surprising if the business community answers the question affirmatively, while the critics of interventionism challenge this premise.


23 A report on the first phase of the Subcommittee on Multinational Corporations' Inquiry, entitled The International Telephone and Telegraph Corporation and Chile, 1970-71 (GPO, Washington, D.C.) was issued June 21, 1973. ITT's alleged effort to involve CIA suggests some potential national security interaction, although more about the character of the regime than the specific investment dispute.

24 Speech by Senator Frank Church before the Business Financing Conference, New York City, December 5, 1972.
One can easily write a "conflict scenario" in which the political feedback from investment disputes adds to xenophobia and nationalistic feelings in an LDC, and produces a corresponding political reaction in the country whose investments have been seized or unfairly treated, with a consequent rise in political tension. But while national security might be indirectly affected by political tensions, the days of solving such conflicts by military operations appear to be over. In any case, these problems have existed for a long time; and could exist with any direct investment, regardless of the institution of the multinational corporation. It can be argued, of course, that such disputes and tensions are fertile ground in which ideological opponents can seek political advantage. For example, the World Federation of Trade Unions, which is sometimes regarded as communist-inspired, if not dominated, held a conference in Santiago in the spring of 1973 which sought to capitalize on the "MNC" issue and develop sentiment for undermining and limiting it.

These political xenophobic problems are, of course, not exclusive to the developing countries, but are familiar issues in the literature concerning investment in Europe, Canada, and more recently, Australia. Japan's inhospitality toward foreign direct investment is well known; and while now somewhat more liberal, there is still a basic asymmetry vis-a-vis inward and outward investment. Prompted, in part, by the example of Canada (which has had an endemic resentment against the high degree of control of her economy exercised by foreign, mostly American, investors), Australia's Senate recently issued a report. 25 Canada has held not one, but five major surveys by task forces or committees on their own problem, which is concerned less with the MNC per se than with direct investment in their country, and their overall economic relations with the United States. 26 Sweden, as noted earlier, also has an inquiry underway. Britain (which is both a host and a home country for foreign investment) has had at least quasi-official inquiries, quite apart from many academic studies,


as have many if not most of the governments of Europe, along with the EEC itself and the OECD.  

B. MNC's as Sources of Stability

The other side of the coin of international conflict is that of contributions to stability, for example, through the economic development of LDC's. A very substantial amount of research has been done on the development aspect—the 1960's abound with both academic and congressional studies of the role of private investment in development. A good survey article is that by Professor Richard D. Robinson, "The Developing Countries, Development and the Multinational Corporation."  

Numerous of the other research centers and authors cited have contributed in this area, and a good bibliography is contained in the FRRI review of the literature. The Columbia Journal of World Business has a number of articles, and both the Harvard and NYU projects are engaged in a variety of scholarly explorations of the impact of direct investment and the MNC on growth in the less developed countries and a substantial body of writings exists on their effects in developed countries, both pro and con.

To the extent that the multinational enterprise and its assets such as capital, technology, know-how, and marketing can improve the quality and quantity of economic development in the most cost-effective (although not always the most politically acceptable) manner, it is surely a contribution to general international stability, and presumptively at least, to international

27 The issue of the MNC and U.S. investment in Europe is widely regarded as having been raised by Jean Jacques Servan-Schreiber in The American Challenge (1967) but this was preceded by works entitled: The American Invasion by William Francis (1962), The Americanization of Europe by Edward McCready (1964), and followed by The American Takeover of Britain by McMillin and Harris (1968). And these, in turn, go back to the early years of this century when F.A. McKenzie's The American Invaders and William Stead's The Americanization of the World, both published in 1902, first raised the nationalist flag against American overseas investment. In short, there is a definite cyclical aspect to the literature on this subject.


29 In The Annals, cited, pp. 67-79.
peace. There is, however, a significant amount of writing which takes a highly critical view, emanating both from academic sources in the industrialized countries and from the less developed countries themselves, as well as various "New Left" sources.

Essentially, this outlook considers MNC's as an instrument of an imperialistic American drive to assert economic hegemony on a worldwide scale. Actually this viewpoint finds one of its first statements in the writings of Lenin, who believed capitalist economies were compelled to seek out foreign markets to absorb excess production and surplus capital. As the period of greatest MNC growth got underway, contemporary American revisionist historians have sought to interpret modern U.S. economic developments from the above frame of reference. For example, William Appleman Williams imputes that the need for peace and stability as the most suitable environment for the internationalization of business (especially in Latin America and Asia) resulted in a special government-business relationship. He describes it as an "effort to expand American exports, develop and control raw materials, and initiate corporate enterprises--while at the same time developing a regional political system based on local rulers loyal to the basic interests of the U.S." Gabriel Kolko goes further to assert that the goal of economic expansion into foreign economies has constituted a rationale for military intervention.

A lucid application of such theories of U.S. economic imperialism directly to the MNC's is Harry Magdoff's *The Age of Imperialism: The Economics of American Foreign Policy*. The author concludes

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30 The case for the MNC as a vehicle of development has been made by a number of economists, notably Harry G. Johnson and Enno Hobbing. See their articles in the *Columbia Journal of World Business*, May 1970, and August 1971, respectively.


that the motivation behind foreign investment by U.S. firms is control of raw material sources and markets in order to protect their domestic position, but he emphasizes that what really matters most to the business system is simply that the option of foreign investment could remain available; he states that government collaborates to preserve this option.

MNC activities in the less developed countries have received especially harsh treatment from the New Left critics. In particular, they castigate firms which derive economic advantage from their operation in LDC's without making substantial contributions toward their development beyond forming small "pockets" of modernization from which most of the population never benefit. Criticism is also made of extractive industries acting without due consideration for the environment, and price differential policies for products sold in the less developed and the developed countries, which the critics interpret as evidence of exploitation. The points above are common to New Left analyses of U.S. foreign economic policy in general, and the MNC in particular. The theoretical link between such interpretations and MNC's as a potential source of conflict is obvious.

There is definite room for more high quality, objective research on the actual political as well as economic effects of MNC's in developing countries. Answers to criticisms, many of them ill-founded, could be developed in the light of the practical alternatives facing a developed country and the unavailability of adequate resources from public investment institutions, as opposed to private capital. The relationship with national security, however, is indirect at best.

Another significant contribution of the MNC concerns economic interdependence, again on the assumption that regional economic integration is a generally desirable development in maintaining international stability and cooperation. This point has been written about by a number of authors including Pierre Uri, Sidney Rowle, Rainer Hellman, Jack Behrman, and many others.

35 See Ronald Muller, The Earth Managers and Abdul Said, The MNC and World Politics, both to be published in September 1973.

36 "Multinational Companies and European Integration," Interplay, November 1968.


It is undoubtedly true that the MNC, by creating a demand for the Euro-dollar market, helped to create it, and that the transnational flexibility of MNC's in financing as well as production and marketing has stimulated efforts to develop a common financial and industrial policy by Europe and generally has promoted economic integration in Europe.

The notion that the multinational corporation, if not a cause, is at least a significant accelerating force in global economic interdependence (and thus the creation of a true "world economy") has attracted the imagination of scholars in many countries. Four articles in The Multinational Corporation issue of The Annals of the American Academy of Political and Social Science, 1972 (cited) deal with the consequences of the MNC for the international system, and this is also a major part of the work at both the University of Pennsylvania and the Foreign Policy Research Institute. George Ball, Kindleberger, and Vernon have also addressed themselves at considerable length to this issue in numerous books, articles and congressional testimony. There is also an important book on the subject by Werner Feld.40

"MNC" studies by international organizations are multiplying; in addition to those already underway in the ILO, UNCTAD, and OECD, the latest entry is the UN's Economic and Social Council, which has appointed a group of twenty "international personalities" to examine the MNC's impact on "international relations" as well as development.

Both hopes and fears are involved; the hope being that the essentially nonpolitical nature of the multinational enterprise (i.e., its instinct to avoid political complications that can affect its profitability), plus the interdependence which it promotes, can insure a healthy pattern of both stability and growth in the world system. The fears raise many of the points noted earlier about the conflict potential of the multinational corporation and also the feeling that an international oligopoly of one or two hundred multinational corporations producing most of the world's goods and services by the 1980's could substitute major international economic conflict among various groupings for the conflicts historically associated with the nation-state. One important article on this is that of Howard B. Perlmutter, "The Multinational Firm in the Future,"41 while a dissenting view (from the proposition


41 pp. 139-152 in The Annals, cited.
that countries are becoming more economically interdependent) is contained in Kenneth N. Waltz, "The Myth of National Interdependence." \(^{42}\)

Obviously, a true global economy, regardless of whether productive of political conciliation or political conflict, cannot help but have some consequences for "national security." If political attitudes toward international cooperation and security are favorable, and xenophobia and extreme nationalism reduced, U.S. security should benefit. If, however, the political polarization of the world shifts from East-West to North-South, that stability could be endangered from a new direction. But the security impacts are indirect, long-term and almost philosophical in nature and therefore very difficult to come to grips with in empirical research.

C. MNC's as a Source or Channel of Influence in International Politics

This aspect has some potential impact on national security. ITT's alleged pressures on the U.S. Government in connection with Chile's expropriation of its property have been widely reported in the press and congressional hearings. Aside from such special situations, Dennis M. Ray has noted that: "There are three avenues of influence which may be open to corporations. These stem from (1) their capacity to take independent action in the international arena through foreign investment; (2) their direct and indirect influence on foreign policy decisionmaking; and (3) their capacity to shape public opinion in such a way as to legitimize governmental action in favor of business interests abroad." \(^{43}\)

There appears to be room for more empirical research on the foreign policy-MNC interaction, recognizing, however, that both governments and multinational corporations are going to be reluctant to discuss their relationships in such sensitive areas as political influence. We have not encountered much objective case study research in this area.

It is not widely recognized, however, that the role of the MNC is a two-way channel; there are cases in which foreign governments seeking to influence U.S. policy, let us say on trade policy--or


indeed on a more general foreign policy proposition, have made communications ranging from subtle hints to direct threats against local affiliates of American firms, hoping that the parent would exert its influence on the U.S. Government in the desired direction. Carried to extremes, this raises the important question of the multinational as "hostage" to foreign governments which have generally been neglected in research, although the potential is pointed out by Raymond Vernon, among others.\textsuperscript{44} It is possible that this aspect will surface in the "gaming" analysis based upon numerous corporate interviews being undertaken in connection with the Wharton Business School project. The question of the MNC and economic warfare--a neglected area of research, discussed in Section III.D--is also related.

\textsuperscript{44} Vernon, "The Multinational Enterprise and National Security," cited.
III. THE ECONOMIC EFFECTS OF MNC's

This section poses the general question of whether the economic repercussions of the multinational company are, on balance, a net contributor to national security or a complicating or negative factor in maintaining it. The assumption is that a nation's ability to provide for its national security depends on its overall economic position and that international politics is increasingly focused on economic competition.

A. The Effects of Foreign Investment on the U.S. as a Home Country

1. Effects on the Balance of Payments

During the 1960's, U.S. multinational companies were the subject of a great deal of research and publication focusing initially on the business management aspects, but moving rapidly to encompass the balance of payments effects as one of the primary impacts of foreign direct investment (which is used in this survey as substantially synonymous with the multinational company). It is fair to state that this subject has now been researched exhaustively through theoretical studies and models, by analysis of the comprehensive data published by the Commerce Department, and through surveys conducted by numerous individual organizations. Starting with the imposition of U.S. investment controls in 1965 (which became mandatory in 1968 under the Office of Foreign Direct Investments, or OFDI, in the Department of Commerce), studies focused on the effect of capital movements on the balance of payments. The Conference Board published a major survey in 1966, followed by one of the more important studies by Hufbauer and Adler, Overseas Manufacturing Investment and the Balance of Payments.

In their study Hufbauer and Adler examined the basic assumptions which have to be made about balance of payments effects; that is, whether direct investment supplements host country investment and replaces home country investment; whether, on the other hand, it substitutes for host country investment but does not affect home country investment; or whether foreign direct investment supplements host country investment but does not decrease investment in the home country. The authors have also tried to establish the range of the

1 Not all writers, of course, share this assumption. In "The Economic Content of National Security Policy" article cited, Charles Schultz asks: "Does our national security depend upon maintaining a healthy rate of growth in our economy--is it dependent on our economic strength? Surprisingly the answer is 'No!'" Schultz gives the same answer to security dependence on overseas raw materials and U.S. investments abroad.

"payback" period for a given investment, that is, when the dividends, income; royalties and fees repatriated have caught up to the initial investment outflow.

The President's Commission on Foreign Trade and Investment also produced considerable information on this subject. The consensus in the business community, with considerable academic support, is that the direct investment controls are counterproductive and must be phased out--as the Nixon Administration has promised to do by the end of 1974.

The Harvard Business School's major study under the leadership of Professors Raymond Vernon and Robert Stobaugh has amassed a considerable data base and published extensively on the many aspects of the MNC and its economic effects at home and abroad. One part of this research project, by Robert Stobaugh and Associates, was published by the Commerce Department in 1971. On the basis of the detailed case studies developed for the Harvard research, this survey concluded that most foreign investments go abroad to keep from losing markets or to gain access to new markets and do not displace investments in the United States. This conclusion was further elaborated in a paper by Professors Stobaugh, Telesio, and de la Torre, published by the Center for Multinational Studies.

Research at the New York University Graduate School of Business Administration and elsewhere has tended to support this conclusion.

The basic facts about the effects of U.S. direct foreign investment are readily available through the Commerce Department's regular Survey of Current Business series. An analysis of the cumulative outflows and returns on investment shows that cumulatively between 1948 and 1972, there were $51 billion of capital outflows for direct investment, of which about $3 billion were raised through foreign borrowing for a net capital outflow of $48 billion. Against this, interest, dividends, and branch earnings plus fees and royalties totaled $101 billion, so that the net balance of payments effects on national income...

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the United States were positive by over $53 billion for this period. 6

The methodological problem in analyzing the significance of such data is that of making realistic assumptions about what would have happened in the absence of this investment. Since economics, like history, does not disclose its alternatives, the assumptions are necessarily hypothetical. The Senate Finance Committee directed the Tariff Commission to undertake a comprehensive study of all aspects of multinational companies and the Committee published the Tariff Commission report early in 1973. The alternative assumptions about whether foreign direct investment was additional to or a substitute for domestically generated investment in home and host countries were used mainly to develop different estimates of employment effects. The Commission showed that multinationals "made a major positive contribution to the current account of the U.S. balance of payments"—a conclusion also reached by the Commerce Department survey of 298 firms. 8

This conclusion is highly significant to U.S. national security, for foreign aid and military deployments cause foreign exchange outflows and can only be maintained by the income earned from foreign investments, now that the U.S. trade balance is in deficit. The very substantial evidence which has been compiled through the above study and numerous others is that the multinational corporation has had a definite and sizable, positive impact on the U.S. balance of payments even after all capital outflows are taken into account.

There is also a substantial body of literature relating to the theoretical effects of foreign direct investment on the balance of payments of host countries and within the international system, although here there are still some technical and methodological disputes. One can conclude that the balance of payments effects of direct investment have been thoroughly researched. But the effects


on host countries, particularly LDC's, still remains in dispute. There is need for detailed, thorough, country-by-country studies in this area.

2. Effects on the Balance of Trade

Much the same conclusion can be reached in this area, namely, that the effects are well researched and understood. Here the Commerce Department has generated a broad data base in its comprehensive 1966 benchmark survey, which collected mandatory data submissions from all foreign direct investors, and further data for the 298 sample firms in the Special Survey of U.S. Multinational Companies, 1970, cited above. Numerous companies, such as Union Carbide, have also published exhaustive studies of their own experience with trade and investment, and business organizations have issued comprehensive studies derived from surveys of their member companies. These include: ECAT, the National Foreign Trade Council, Business International, and the National Association of Manufacturers.

The Harvard Studies and the Tariff Commission study previously cited have also contributed to the literature in this area, as have Robert Hawkins' Occasional Papers 1 and 3 for the Center for Multinational Studies. The National Bureau of Economic Research is also undertaking an elaborate study of the MNC and U.S. trade.

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All of the foregoing generally support the proposition that most multinational companies export more both to their affiliates abroad and to foreigners in general than they import either from affiliates or in general. The multinational segment of the U.S. business community, therefore, has a better than average performance in the trade field and has generated a consistent surplus. This conclusion is most clearly shown by the Commerce Department's Special Survey, 1970. The question of whether multinationals contribute to an unhealthy dependence upon imports in any given critical sector is dealt with elsewhere (see Section I above); but in terms of the overall impact on the U.S. economy, the MNC is seen to be favorable in trade terms.

Labor organizations such as the AFL-CIO have challenged this conclusion by blaming the MNC for loss of jobs attributed to imports or to the "export" of the U.S. production base. The facts are that less than 10 percent of the global manufacturing production by U.S. manufacturing firms enters the United States—and more than half of that comes from Canada, with which the United States has special arrangements for free trade in automotive products.

The notion that direct investment in manufacturing facilities abroad displaces U.S. exports has also been examined in the literature, and although there are proponents of this concept abroad and some in the United States, such as Professor Peggy Musgrave, the weight of the evidence is that the exports could not have been made from the United States for a large variety of reasons, of which labor costs are only one—and in many cases, the least significant factor.

It is important to distinguish the investment issues raised by the multinational corporation from the trade issues—although labor spokesmen have tended to confuse the two. Multinationals, to be sure, are an important and growing factor in U.S. exports—which, as noted above, are helpful to the U.S. economy and, presumably, to national security. They are a much less significant factor in imports; and the so-called "trade policy" issues, while important matters of both international relations and U.S. Government policies, are not centrally linked to the multinational company. It is true, however, that many investments abroad have been made because of the

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trade policies of other countries, e.g., the EEC's common external tariff, and numerous nontariff barriers, such as local content requirements.

Thus, U.S.-based MNC's can and do have a not inconsiderable impact on trade patterns in the world generally. An important paper on "National Security Considerations Affecting Trade Policy" has been written by Thomas C. Schelling of Harvard. Schelling notes that trade policy is an instrument for shaping the domestic economy, in particular in preparation for wars or other emergencies; that it is an instrument for affecting the economies of other countries, friends and allies or potential enemies; and that since trade is vulnerable to war and other disruptions and emergencies, trade policy can be used both defensively and to mitigate the damage from actions by others. His paper does not, however, include investment questions or the role of the MNC. The MNC does have a potential role to play in the national security aspects of trade policy, and this is dealt with in Section III D under the "Economic Warfare" heading.

By and large, the subject of MNC's contribution to U.S. trade, and any derivative conclusions one wishes to draw from the facts, is pretty thoroughly cultivated and little original work can be done, except for the Department of Commerce to update their statistical compilations.

3. Effect on Domestic Investment and Jobs, Finances, and Taxes

This question has been at the heart of domestic controversies about the multinational corporation, owing to the efforts of organized labor to make the MNC a scapegoat for alleged job displacement. Unfortunately, these allegations initially tended to generate more political po
cnics than analysis; but the business community has now responded with an impressive array of studies dealing with this question in depth. In addition to those by ECAT, Business International, the NAM, the National Foreign Trade Council, and the Center for Multinational Studies cited above, the Tariff Commission study has specifically examined this area on an industry-by-industry basis and concluded, in effect, that only highly unrealistic assumptions about the ability of the United States to export would support the notion that there has been a net job displacement.

Occasional Papers 1, 3, and 4 of the Center for Multinational Studies have explored this area. In No. 1, by Professor Hawkins, the domestic economic performance of industries with high and low intensities of foreign investment are compared. It found that the higher intensity industries have, on average, performed well in terms of shipments, exports, growth and employment, and better than national averages. The poor performers have been in industries like

17 In the Williams Commission Report, cited, Papers 1.
textiles where there has been little U.S. foreign investment. This conclusion, which is supported by the Business International Survey (Note 13 above) is significant both from the standpoint of labor's criticism and national security. It indicates that whatever cause and effect there may be in the relatively good MNC performance, MNC's have not caused the problems of other sectors, nor have they, in the aggregate, moved substantial elements of the U.S. production base offshore. The possible exceptions, such as consumer electronics, have been discussed in Section I.

Occasional Paper No. 4, based on the Harvard Business School MNC research study, concludes that some 600,000 jobs not have been created, due to the pull effect of direct investment upon exports and the employment effects of such additional exports, both in production jobs and in associated home office and indirect support activities. Professor Hawkins' Occasional Paper No. 3 is a methodological review of six studies in this field, including one sponsored by labor, as well as a survey by the Chamber of Commerce. All the studies, except that by the AFL-CIO, show a positive effect ranging from considerable to very substantial.  

The question of the qualitative impact has also been assessed in Occasional Paper No. 4, and the tendency noted for foreign direct investment to have an effect of upgrading the level and pay of U.S. jobs because of their higher technological content. Whether "national security" might be involved in the displacement of certain skills relevant to defense production appears not to have been studied, insofar as this survey could determine; but there may well be studies by the Defense and Labor Departments which are not publicly available.

On balance, this area is bound to continue to be a controversial one, because of the sensitivity of labor's concerns. When looked at objectively, however, that concern seems to be more over the acceleration of changes in employment patterns in that a job created in the United States due to a company's overseas activities may be in a different locality, a different union, or even no union. Labor, therefore, perhaps with some reason, sees a threat to its general bargaining position in the U.S. national picture, in part due to the internationalization of production, imports, shifts in consumer preferences, and the like. Here labor has done some case studies of particular companies or industries such as aerospace where a part of the U.S. production base has been moved offshore. This is one of the areas

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18 The others were the studies by BI, ECAT, NFTC, and Stobaugh previously cited (See p. 7 of Occasional Paper No. 3)

that might have an impact on national security because of its special relevance to the defense production base, as noted in Section I.

Many studies of adjustment assistance have made a good case that the burden of adjusting to changes in skill patterns required for industry and the general tendency to shift from a production to a service-oriented economy can be more equitably shared by the national economy as a whole instead of left to rest on the shoulders of particular individuals, skill levels, and communities. This subject is also fairly well researched, however, and extensive congressional hearings have been held. 20

With respect to the effect of foreign investment and the MNC on U.S. finances and taxes, the argument has been made both by labor critics of the MNC and by so-called tax reformers that the U.S. could capture a significant additional tax income if it eliminated preferences now said to apply to international as opposed to domestic investment. This case has been made very strongly by labor and others such as Stanley Surrey and Peggy Musgrave. 21 The business community has, however, strongly rebutted these assumptions, in voluminous testimony given to the House Ways and Means Committee during tax reform hearings in the spring of 1973. 22

The issues here are about the credit now given for foreign income taxes paid, and the so-called "deferral" question. In connection with the tax credit, it should be noted that these are established by a network of bilateral treaties designed to avoid double taxation, of which the United States is currently a party to more than thirty. 23


22 See Testimony before the House Ways and Means Committee on Tax Reform, March 6 through April 6, 1973, on Taxation of Foreign Income by Donald M. Kendall (Emergency Committee for American Trade), Harry Heltzer, (3M Company), Paul D. Seghers (International Tax Institute), N. R. Danielian, (IEPA), Robert N. Norris (National Foreign Trade Council), and others; the hearings have not yet been published by the U.S. Government Printing Office.

According to Treasury estimates, elimination of the tax credit could lead at least to an additional $3 billion of taxable income—an amount which could be strategically significant in terms of national security. The problem is, however, that such gains would probably prove illusory, since the handicap on U.S. firms operating abroad in terms of their foreign competition would force many of them out of business, with serious, if not disastrous, effects on the stock market. (Professor Robert Stobaugh has estimated that this impact could be as much as $200 billion in stock market values.)

By the time Congress adjourned in the summer of 1973, it appeared that the notion of eliminating the tax credit, as proposed in the Hartke-Lehrke and other labor-sponsored bills, had been dropped, and the issue had come down to that of "deferral."

This issue could be more accurately described as one of taxing the income of foreign affiliates currently, without regard to whether the income had been repatriated and thus brought within the tax jurisdiction of the United States. Apart from the "extra-territorial" legal aspects of the problem, many witnesses before the House Ways and Means Committee felt that here, too, there would be serious competitive handicaps imposed on U.S. business companies who would have to cut into the amounts which could otherwise be used in expanding the overseas investment base and market access by remitting money for the additional tax obligations. However, from a government finance point of view, the amounts involved are relatively insignificant, estimated to be on the order of $325 million annually.

As Congress adjourned it seemed likely that the tax reform issue might be put off until fall, although the Ways and Means Committee still had on its agenda both the Administration proposals to tax certain "runaway plants," and "tax holiday" situations on a current basis, and the Committee proposal to tax at least 50 percent of foreign-source income on a current basis.

The literature and analyses in this area are very extensive, and detailed citations seem unnecessary since there is little, if any, national security impact. The testimony of IEPA to the Ways and Means Committee explored in detail the national economic interest involved in the question of foreign-source taxation; and the matter does not appear to require further examination in this survey.

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In concluding this survey on the effects of foreign investment by U.S.-based multinationals on the United States, we should make a brief cross reference to the role which such MNC's have in providing vital natural resources which was discussed in Section I D, and to the impact of the transfer of U.S. technology (and receipt of foreign technology) on U.S. competitiveness, which was analyzed in Section I B.

One can conclude from the extensive literature in the economic area that, on balance, the U.S. multinational firm has enhanced American competitiveness in the world economy, and has helped the U.S. balance of trade and payments. On an aggregate level, it also appears to have helped U.S. employment and production, both quantitatively and qualitatively, although by accelerating the pace of adjustment to new technological progress and consumer preferences, it has created some dislocations. These seem better met by more effective adjustment assistance programs than by shackling America’s multinational corporations.

The submission of IEPA's Center for Multinational Studies to the Senate Finance Committee reached the following conclusion:

While . . . there are some problems as well as advantages to be had from the institution of the multinational corporation, the latter are identifiable and quantifiable, for example, the gains for the balance of payments and trade. The problems, on the other hand, tend to lie more in the qualitative area—and often involve factors of which the multinational firm is merely a manifestation rather than a contributing cause, such as the increasing interdependence of the world economy and the acceleration of technological innovation. This tends, however, to make the MNC vulnerable to political attacks as a convenient scapegoat.26

As previously noted, the national security interaction with the economic effects of MNC's depends largely on the proposition that national security, in its broadest sense, depends upon the strength and potential of the U.S. economy. All in all, it is hard to see how the United States can conduct effective policies to maintain or advance its "national security," however that term may be defined, without intrinsic economic strength in domestic terms as well as a profitable relationship with the international economy. It is clear that, whatever its problems, the American MNC has advanced rather than retarded such viability.

The facts in this area are available. The controversy is political. It is difficult to find new areas of exploration. The remaining problem is one of public education.

B. The Impact of Foreign Investment on the United States as a Host Country

1. The Effect on the U.S. Balance of Trade and Balance of Payments

The basic principles of the effects of MNC's on the balance of trade and the balance of payments of the home country, as described above for the United States, may apply in reverse at least in part for foreign direct investments in the United States as host country. As outlined in previous sections, the effects of MNC's on the United States as home country have been voluminously covered in the literature on MNC's and direct investment—although rarely with any discussion of national security implications. Foreign direct investments in the United States, however, have not been as carefully researched and analyzed, in part because of their relatively small magnitude ($13.7 billion in accumulated book value of investment in 1971 and $0.9 billion in repatriated earnings in 1972, in contrast with $86 billion and $10.4 billion, respectively, for U.S. direct investments abroad). 27

In recent years, it has been a policy of the U.S. Government to encourage foreign investments in the United States in order to bolster the U.S. balance of payments; and this will continue in the future. 28 As a consequence, the security ramifications of this investment inflow, which will most likely be controlled by foreign-based MNC's, deserves more extensive and careful consideration.

Although the activities of U.S.-based MNC's have tended to bolster the U.S. balance of payments, it is not necessarily true that the converse holds for investment by foreign MNC's in the United States. In the short term, such investment clearly helps the U.S. balance of payments, and hence the U.S. capability to support the national security in ways which depend on foreign exchange expenditures. In the longer term, however, probably a decade for an average investment, the cumulative U.S. balance of payments outflow will overtake the initial inflow as earnings and royalties build up.


Broadly speaking, there are four basic motives for foreign MNC's to invest in the United States. 29 First is the currently deflated U.S. stock market, a transitory phenomenon which makes the acquisition of existing plant desirable.

Second, the devaluation of the dollar has also made new investments in the United States, for a given level of productive capacity, competitive in cost with new investments elsewhere.

Third, the changed exchange rates and resulting price factors make continued import sales to the United States uncompetitive. Profitability for both the foreign manufacturer/exporter and the sales subsidiary or importer in the United States has decreased lately. Nonetheless, the interest remains to stay active in the large and usually profitable U.S. market.

The fourth motive is the threat of protectionist trade policies in the United States. U.S. labor's shift from a free-trade stance to protectionism (witness the AFL-CIO-supported Hartke-Burke bill and its rigid import quotas) is well noted above.

The exact relative magnitudes of the balance of payments impact of foreign investment cannot be easily ascertained. An inflow of foreign capital will finance the investments, aiding the balance of payments. Part of the composition of U.S. imports will shift to components, and products complementary to U.S.-made product lines, possibly reducing the total import bill. U.S. exports to other foreign MNC affiliates and markets as part of the MNC's global interaction may pick up. And finally, remittances of earnings to the foreign home office will grow.

Even assuming that the net of these flows may ultimately be negative on the U.S. balance of payments, 30 there may not be a feasible alternative to the increase of foreign MNC activity here. For not only do foreigners hold over $90 billion of U.S. dollars which can readily be spent in the United States, but maintenance of a relatively open economy, extending the same privileges of national treatment to foreign direct investments as foreign countries do to our direct investors, is necessary for continued U.S. competitiveness abroad. 31

This open policy also may prove relatively harmless to our balance of payments and to the long-term ability of the United States to earn sufficient foreign exchange to pursue its national security objectives abroad. Much depends on the relative rate of


growth of U.S. investments abroad and foreign investments here. Only a rapid upsurge in the latter, combined with stagnation in the former, would cause a serious problem.

The climate in which U.S. direct investments and MNC expansions were made abroad differs from the climate in which foreigners will increasingly invest in the United States in the following respects: First, the U.S. direct investments in Europe were made in an economy recovering from World War II's ravages, and creating a vast new market, the EEC, which was not yet used to advantage by wide-scale, domestic commercial ventures. U.S. MNC's led the way in realizing the potentials of economic scale, and thereby profited immensely. In contrast, the new foreign investments in the United States will enter a market well utilized by preexisting nationwide firms, with access and familiarity with the most modern technology and management techniques. Furthermore, the U.S. economy is entering (or has entered) a new period of adjustment to scarcities, and of reorientation from mere growth in goods measured "standard of living" to "quality of life." The foreign entrants may face much stiffer competition for a share in a slowly growing pie.

The effect of this different environment may be a slow growth of foreign MNC's in the United States—and consequently a more manageable problem in relation to the U.S. ability to generate net foreign exchange surpluses to finance national security interests worldwide. The basic issue is the transformation of the United States from a creditor to a debtor nation. The implications of this for U.S. national security requires much rigorous study, which is so far lacking.

2. The Effect on Domestic Investment, Jobs, Finances and Taxes

The most probable effect on U.S. taxes from foreign investment in the United States will be an increase in revenues—to the degree that foreign direct investments add to production and business profitability, rather than merely transferring ownership to foreign hands. Assuming the current network of tax treaties remains in effect, the U.S. as host country would have the first tax claim on subsidiary profits within it, just as foreign countries do on U.S. MNC's. The MNC tax issues and their impact on public revenue reviewed above should prove equally applicable to inward and outward investments.

Increased foreign investment in the United States will probably bolster the financial and security markets of the United States by increasing foreign demand for borrowings to finance their investments. To the extent such enterprises become truly multinational in ownership as well as operations, they will further increase integration of world financial markets just as U.S. MNC's have done.

In the area of jobs, investment and aggregate economic performance in the United States, the entry of foreign MNC's seems generally desirable. This area has also been scantily treated in the
literature to date, but has a tangential national security impact revolving around the general strength of the American economic system, and, where new skills are introduced, in the expansion of the technological base of the U.S. economy.

On one level, new foreign investments entering the United States create jobs—or often appear to do so. The takeover of a closed plant, or the creation of a wholly new one, contributes to growth, production, and employment. It thus may ameliorate the opposition of organized labor to liberal foreign trade policies, and to U.S. outward investment, which is the other side of the coin.

In the case of the foreign acquisition of a preexisting U.S.-owned firm, there is obviously no immediate incremental impact on employment—indeed, old employees, especially on managerial levels, may be apprehensive as to their continued employment. (This type of problem in takeovers has recurred frequently in the history of U.S. firms in the European Community.)

It has been argued (in the Tariff Commission report already noted, among other studies) that a proper combination of monetary and fiscal policies, and investment incentives for wholly domestic firms might have accomplished the same production and job expansion. Therefore, the foreign MNC employment impact may be more superficially apparent than real. On the other hand, foreign investors may bring innovative technology, marketing, and products to the United States, just as U.S. firms have done abroad.

There is also a question of structural impact on the industrial economy. Does the entry of foreign competitors into domestic production increase or decrease competition in the United States? Superficially, it would seem to lead to an increase—especially when the foreign MNC constructs new plants and facilities. But in the case of takeovers of preexisting domestic firms, the foreign entry may well decrease competition—especially when the acquired firm was previously competing with the MNC’s shipments for import into the United States. The entire question is under continual consideration by the Antitrust Division of the U.S. Department of Justice, which has repeatedly stated that mergers and acquisitions by foreign firms will be treated on the same basis as those by domestic firms, and consequently the applicable provisions of the Sherman, Robinson-Patman, and Clayton antitrust acts will apply. This, of course,

sometimes appears to be extraterritorial application of U.S. anti-trust policy to foreign parents, which has caused some political resentment.

To the degree that foreign entry represents increments of vigorous competition into the domestic marketplaces, then it probably should be judged beneficial, despite the complaints of domestic competing firms which feel unwanted new pressures.

By the same light, new foreign investment in the United States may be beneficial to the general productivity of American industry, especially where new and modern plant construction or existing plant modernization ensues. To the degree that foreign investments in the United States serve to make the U.S. industrial plant more dynamic, more innovative, and more modern, foreign MNC entry may have a beneficial effect on national security through additions to the national economic strength and dynamism.53

These are all imponderable questions. In a free economy it is not possible to guide foreign investments only into those sectors which may appear to have an additional dimension of national interest such as practiced by France and Japan. A detailed study of what foreign technology we would like to import from a national security point of view, and what steps, direct and indirect, the U.S. Government can take to encourage such investments, may be a worthwhile undertaking.

3. The Effect on the Control of Specific Essential Industries

It should be noted that certain economic activities in the United States are not permitted to aliens: coastwise and fresh water shipping, telecommunications, domestic air transportation, atomic energy facilities, hydroelectric power facilities on navigable waterways and mining operations on Federal lands.54 These restrictions stem from the defense essentiality of the enterprise, the public trust nature of the activity, or the historical alien exclusion from natural resource exploitation in the United States. In addition, various states have regulations specially governing alien land-ownership, foreign-owned banking, and foreign-government-owned insurance companies, as well as exclusion of aliens from aspects of the alcoholic beverage industry.

Despite these formal limitations and exclusions, however, foreign MNC's are able to engage in the specified enterprises through minority participation in corporations chartered under domestic U.S. law (in


34 See Chamber of Commerce of the U.S., Staff Report on Foreign Investment in the United States, July 24, 1973, for a discussion of these and other legal problems related to foreign MNC's operating in the United States.
which aliens own 25 percent or less of the voting stock). In some cases the ownership restrictions are even more limited: only a majority of stock must be owned by U.S. citizens in international shipping lines for them to be eligible to receive construction and operating differential subsidies from the U.S. Government.

The political consequences of allowing foreign MNC's to engage in defense-related industries (from which they are not specifically excluded) are only passingly considered in the literature.35 One can envisage a foreign MNC reluctant to engage in production for U.S. defense contracts, perhaps, because of home country objections to the U.S. foreign policy goals supported by a military buildup, but it seems likely that a domestic concern would readily move into the gap, and unlikely that a material need could be fulfilled only by technology exclusively owned, but not yet licensed out, by a foreign concern. Moreover, few foreign governments apply the "global concept" of jurisdiction over the activities of their citizens which the United States has sometimes sought to enforce in analogous cases.

Just as it is difficult to control the outward flow of U.S. technology (save by Manhattan-project types of security measures, which themselves have not been very successful in the long term), it seems unlikely that foreign firms could prevent the United States from acquiring, duplicating, or refusing to honor patent rights to technology refused it from abroad. There are many technical questions here, not covered in the MNC literature reviewed, which may be discussed in technical and patent law journals not included in this survey.

A different political consequence of foreign MNC operations in the United States might be their stimulation of rabid nationalism and xenophobia, which would threaten the continued national treatment granted foreign corporations here. The wellsprings of such moves appear emotional, rather than logical in view of the extensive U.S.-owned share in foreign economies hostage to a reciprocal hostility. It should be hoped that the U.S. public is more sophisticated than the nationalists of some LDC's, and that the political leadership of the United States would prove more sophisticated and open-minded; but the possibilities certainly exist that high levels of foreign

35 Most of it is legalistic in nature, dealing with the assets of German industry in the United States which was seized in World Wars I and II.
economic activity within the U.S. economy could stimulate isolationist emotions, just as increased imports from abroad have stirred up protectionism.  

The consequences of heightened levels of foreign MNC investment in the United States on war mobilization are also relatively unstudied. On the first level, it would seem that in time of need, uncooperative foreign assets could be frozen or expropriated, new management installed, and (at the cost of some disruption) production continued as happened with German assets in World War II. The requirement of U.S. ownership and management in the essential industries specified above would obviate this problem; in other, less directly defense related industries, the disruption probably could be easier borne. In short, what Raymond Vernon calls the problem of "multinationals as trojan horses" 37 is not apparently a major one for U.S. security. In terms of internal security, however, the problem may be different. Soviet trade missions and quasi-governmental entities like Amtorg have been notorious as "covers" for intelligence and espionage activities. This aspect does not seem to be dealt with in the MNC literature surveyed.

A more complex question is whether the existence of significant foreign MNC investments could weaken the U.S. research and development base, especially from a military technology standpoint. Foreign observers have charged that U.S. direct investments have left their countries dependent on continued imports of new technology and R&D from the U.S. parent firms. The chances of weakened U.S. industry would depend in part upon relative R&D costs here and abroad, as well as


whether MNC's generally exercise an ethnocentric preference. Another consideration is whether foreign MNC's could ever become sole or dominant sources of production of a category of goods. The literature on U.S. MNC R&D activity, reviewed in the first section of this report, would appear to apply, but it should be noted that foreign MNC's seem generally more conservative in their planning and internationalization than American MNC's, and thereby presumably more prone to retain research budgets abroad.

The national security problem relates in the end to the balance to be struck between the concepts of international economic interdependence based upon rational allocation of resources versus the more narrow "self-sufficiency" concepts. Can the United States, for example, afford to rely upon foreign sources of technology or foreign-controlled imports in any group of advanced technological industries? The saving grace is that it does not appear likely that foreign MNC investments could ever become the only firms producing in a given field of endeavor. Given the lead of U.S. firms in high-technology industries, foreign competitors probably, at best, will compose only a share of participants in any area, rather than the sole providers of a whole class of goods.

In summary, apart from the long-range balance of payments consequences, the dangers of xenophobia, or the possibilities of foreign MNC's becoming intelligence acquisition centers, the "national security" interaction with investments in the United States by foreign MNC's appears small.

The United States not only requires U.S. ownership of certain industries, but it exercises strategic trade controls as well as other forms of jurisdiction over all firms doing business in the United States, regardless of ownership. For this reason, perhaps, literature is generally lacking in this area. Nonetheless, the strategic consequences of the rapidly growing foreign direct investment and operations by foreign MNC's in the U.S. may merit further study to verify whether the foregoing summary impression is valid or whether some security implications have been overlooked, or, perhaps, have not yet emerged.

C. Effect of MNC's on the Global Economy and Monetary System

The question of whether the multinational corporation is causing (or merely reacting to, or possibly accelerating) a shift to a genuine world economy based on a world marketplace, and whether this is, on balance, a good or a bad thing, has been debated by a number of writers.

Judd Polk has made some admittedly speculative forecasts to the effect that the world economy may be dominated by 200 giant
firms by 1985. On the other hand, Kenneth N. Waltz questions the growing economic interdependence of countries. The political consequences of Polk's economic projections are enthusiastically embraced by Richard E. Barter and George Ball, the former Under Secretary of State. As already noted, Kindleberger and Vernon are among the eminent scholars who have urged that, in effect, since the multinational corporation is here to stay, nation-states must adapt to it by developing international controls and greater international cooperation.

The global economy, unfortunately has neither yet arrived nor can its arrival be predicted with the confidence asserted by some scholars. Moreover, its national security implications defy ready characterization, since they imply basic changes in political behavior and perceptions. Vernon concludes his essay on "Multinational Enterprise and National Security" with the observation that multinational enterprises will be "even less available as instruments of national strategy" than heretofore, and that:

The willingness to entertain a multi-governmental approach to the control of multinational enterprises will grow. Once that door is opened, the position of the multinational enterprise in international relations will be greatly changed, and the relationship between multinational enterprises and national security will become more attenuated than ever.

If the impact of the MNC on the creation of a "global" economy appears too philosophical for empirical research as to the national security implications, this is not true of the impact of the MNC on

38 See for example, Judd Polk, "The New World Economy," Columbia Journal of World Business, Vol. 3, No. 1, pp. 7-16, January-February 1968. His thesis appears in a number of articles and has been widely quoted by other writers.


41 Numerous articles in various periodicals, e.g., Columbia Journal of World Business, November-December 1967; Dunn's Review February 1968; a particularly representative view is in The War/Peace Report, "Making World Corporations Into World Citizens."

42 Cited, pp. 122-123.
the world monetary system. Again, it has to be assumed that a
stable world monetary system is important to the national security
of all major countries, including the United States.

The effect of MNC's, with their global financing, profit centers,
and ability to transfer funds, to play "leads and lags" in settling
accounts, and to hedge against changes in currency valuation was
largely ignored in the literature until the monetary crises of
1971-73.

At that time, numerous periodicals and news media began to
accuse the MNC's of being "major international speculators" and of
being responsible for this or that run on the dollar, or inflow of
foreign exchange into Germany. Although the Commerce Department's
Office of Foreign Direct Investments did issue a press release
indicating that, on the evidence available, American multinationals
had not transferred significant amounts of currency in the period
preceding the May 1971 crisis,\footnote{Department of Commerce News Release, Office of Foreign
Direct Investments, Thursday, May 20, 1971.} the U.S. Government had not added
to the data available on this subject until the issuance of the
Tariff Commission report for the Senate Finance Committee. And
this, as it turned out, merely added fuel to the fire. The report
says, in essence, that although few, if any, multinational corporations
and banks actively engage in speculation, they nevertheless controlled
some $268 billion in short-term, liquid assets, of which the movement
of only a tiny part could produce a massive monetary crisis.

The data from which this generalized judgment is derived is
highly questionable—as are the commonsense implications, since
most of the assets indicated are not readily transferable. But
as a result of the publicity growing out of this study, the
Federal Reserve Board has undertaken a study of monetary movements
by the MNC's. The results are not yet available.

In the academic world, work is underway at UCLA, among other
research centers. There, Dr. John R. Dominguez has specialized in
this area, and Professor Benjamin Klein is doing a paper for the
Center for Multinational Studies, to be published in the fall of
and Columbia Business Schools, respectively, have issued a book on
Money in the Multinational Enterprise,\footnote{Stobaugh and Robbins, cited. See also, Bernard A. Lietauer,
Financial Management of Foreign Exchange, M.I.T. Press, Cambridge,
1971. Like Stobaugh and Robbins, this is basically a "how to" book,
although more conceptual and mathematical in content.} of which a summary recently
appeared in Fortune magazine.\footnote{"How the Multinationals Play the Money Game," Fortune,
August 1973, p. 59.}
The problem in this area is to distinguish cause and effect. For example, the U.S. imposition of investment controls forced many U.S. companies to borrow to finance their expansion abroad; this, in turn, created a demand, met by the large number of dollars available in Europe on account of U.S. balance of payments deficits, a combination which led to the creation and phenomenal growth of the Euro-dollar market. This Euro-dollar market, since it is not really subject to the effective control of any single nation, has been a pool of liquidity which has spilled over international boundaries, creating considerable instability in currencies. In a very real sense, the MNC appears to be both the victim and a contributor to such developments.

Of course, to the extent that U.S. multinational corporations collectively represent considerable financial clout, and to the extent that their judgments about the future value of a currency lead them to hedge, let us say against the dollar, there can be serious consequences, both for the dollar's value and indirectly, at least, for U.S. security. (Each devaluation of the dollar probably adds a nearly equivalent percentage to the cost of U.S. troops and facilities abroad.) On the other hand, there is some evidence that the impact of banks, especially in Britain and Switzerland, and Middle East oil money have been at least as large as, if not larger than, that of the American multinationals. In any case, in the long run, it is likely that the increased American demands for imported Middle East oil will create many billions of reserve assets in the hands of the Arab states which may represent a far greater threat to international monetary stability than the operations of multinational companies. For the latter are in business to make money by selling goods and services, and not by speculating or hedging, except as a defensive measure. Nevertheless, this subject is so important that additional research could well be justified. The problem, however, is to obtain accurate data on the financial activities of individual actors (MNC's and others). It is to be hoped that the Federal Reserve or other government studies will increase the available data.

D. The MNC and Economic Warfare

During World War II and the post-war period, no American war college worthy of the name was without a course on "economic warfare." Among the classic texts were George A. Lincoln's

In any all-out conflict, economic warfare is widely recognized as an important instrument, whether by disrupting enemy access to supplies (preclusive buying, embargoes, etc.) or by insuring one's own access to essential supplies. The latter, of course, was a key element of British global strategy with regard to the resources of the Middle East and India until after World War II.

In the nuclear age, however, it is widely thought that all-out confrontations are suicidal, at least among major nuclear powers, so that "economic warfare" has been downgraded as a "respectable" subject. Logic, however, suggests that it may be of even greater importance in politico-economic conflicts, given the reluctance to employ military force because of the dangers of nuclear escalation.

The United States has maintained both a unilateral strategic embargo on certain items and a multilateral strategic trade control through COCOM. The so-called Battle Act provides the legislative authority for strategic trade controls and an annual report on implementation of the Battle Act is issued by the State Department. However, as detente diplomacy overcomes the legacy of the cold war, such controls and restrictions appear to be in the process of being lifted or eroded.

Looking ahead, the relationship of the MNC to economic warfare liabilities and potential, both offensive and defensive, appears to be almost completely overlooked in the literature. As previously noted, there are only three references bearing directly on the point in the research covered in this survey, although, of course, there may be many others in government departments to which we have not had access. This appears to be an area definitely worthy of


more detailed research. Imagine, for instance, a U.S. "cold war"-type conflict with another major country or coalition of countries. Are the thousands of affiliates of U.S.-based multinationals assets or liabilities? They may be subject to seizure, of course. They may be regarded as "Trojan horses." They may be compelled by their host governments to follow policies inconsistent with the strategic interests of the United States. They may be used as "hostages" for blackmail purposes. On the other hand, with well over $86 billion of book value assets (as of the end of 1971, and doubtless far more now, as well as in terms of market value), they represent a significant potential for control of important sectors of the world's economy, often in strategic areas, depending, of course, on the nature and participants in the conflict envisaged in the scenario.

The question that has to be asked is, can the United States, in peacetime, make contingency plans for the effective mobilization and employment of these corporate assets, without generating major domestic controversy--and undoubtedly, serious opposition by the business community--and risk jeopardizing these potential assets by increasing the suspicions of host governments? In the literature researched, we have not encountered a serious discussion or analysis of the pros and cons on this issue.

A case in point was the determination several years ago by the Defense Department that the acquisition of the most sophisticated offensive and defensive missile systems by the Soviet Union was handicapped by their backwardness in computer technology. Accordingly, computer production facilities were on the controlled list. These controls were, of course, administered in conjunction with other NATO countries through Cocom. About this time, however, the Soviet Union for political purposes was promoting a "technological entente" with the French Government of Charles deGaulle. France was also seeking computer technology. This must have put IBM and other American affiliates in France and European countries in a fairly serious dilemma. It seems probable that there are extensive discussions of the problem in the files of both the companies concerned and government agencies; but the issue does not appear to have been discussed to any extent in the public literature, perhaps because of its sensitivity.

Research into the selective applications of strategic trade controls or other techniques of economic warfare may, of course, be difficult to conduct on an unclassified basis. But a more careful search, under appropriate governmental auspices in this area, to include the literature in the National War College and Industrial College of the Armed Forces, definitely seems warranted. The research should specifically include the role which the MNC can play in "defensive" economic warfare, that is, circumventing economic pressures brought by other countries against the United States. Except for Schelling's article noted above, there appears to be very little current literature on this subject. The dispersal of faciities throughout the world also has some advantages from the point of view of post-attack recuperation and survival, should thermonuclear conflict arise.
Although the broad term "East-West relations" encompasses China and Eastern Europe, as well as the Soviet Union, the developing relationship with China is still too new to have produced much literature other than in popular and some business journals. In any case, the prospects for U.S.-Chinese economic relations appear limited by economic as well as political factors, and will probably progress more slowly, with less involvement by multinational companies operating under contracts or concessions than is likely to be the case for the Soviet Union. This section, therefore, deals primarily with the strategic impact of MNC's on relations with the Soviet Union, and to a lesser extent with Eastern Europe.

Each of the headings of possible MNC-national security interaction previously discussed--military and defense production, political, and economic--has special relevance to the U.S.-Soviet relationship. There is, of course, a large volume of literature dealing with the general subject of East-West trade. A good data base is available in the form of the UN's Economic Commission for Europe (ECE) economic bulletins and surveys, and various reports on industrial cooperation which are issued as ECE documents. As previously noted, the U.S. Government makes available information through the annual reports on the Battle Act, and the Department of State has issued a research study on Trade of NATO Countries with Communist Countries, 1967-70.1 Congressional hearings are also a prolific source of papers on this subject.2

It is noteworthy, however, that little of the literature sampled makes specific reference to the important role of multinational companies. The Center for Multinational Studies has


recently issued Dr. Thomas Wolf's *East-West Economic Relations and the Multinational Corporation*,\(^3\) which is one of the few documents to concern itself specifically with this subject. One can expect the literature to grow fairly rapidly, not only in the West, but also in the East. One recent paper submitted to a symposium on "The Growth of the Large Multinational Corporation" notes that Hungary alone has about 200 cooperation agreements with Western partners and this number is increasing by 30 to 40 percent per annum.\(^4\)

The upsurge of activity in this field is brought about by a longstanding interest on the part of Western companies in access to markets and resources in the Soviet Union, with what the Director of the State Department's Bureau of Intelligence and Research calls an eagerness on the part of the USSR "to obtain equipment and technology from many countries, and this includes, e.g., U.S.-invented machinery produced in Europe with American parts by multinational corporations."\(^5\) As this official notes, the Soviet Union is seeking to proceed on the most cost-effective basis to improve its standard of living and the quality and quantity of consumer goods without sacrificing its defense posture or general economic structure, so that it seeks access to Western capital, technology, and know-how within the constraints of its balance of payments. Whether gains for the Soviet economy, at least in the sense of lower "opportunity costs" for military programs, have an adverse effect on U.S. security depends on one's assumption about long-range Soviet intentions.

Howard Perlmutter of The Wharton Business School speaks of "trans-ideological" enterprises arising out of this coincidence of interest.\(^6\) The general, if somewhat cautious, pursuit of "detente" by both East and West has, in effect, made respectable

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\(^3\) Center for Multinational Studies, Occasional Paper No. 5, July 1973.


the more active pursuit of these self-interests by Western firms and the Soviet Union and other countries of Eastern Europe.

Senator Ribicoff has pointed out that:

While politicians and diplomats still argue over the same old tired political issues, businessmen and bankers are rearranging the basic nature of relations between states and peoples. While the generals still busy themselves with planning their war games and maneuvers, increasing commerce between East and West, and the growing internationalization of production are making the idea of a major armed conflict in Europe an absurdity. The activities of multinational corporations . . . are crossing frontiers and erasing national boundaries more surely and swiftly than the passage of armies and the conclusion of peace treaties. 7

If, as Senator Ribicoff suggests, "eco-politics" is replacing "geo-politics," then the interaction between the MNC and national security is likely to be particularly relevant in the area of East-West relations. This aspect does not appear to be adequately researched in the literature; and it appears worthy of more serious study.

On the military side, there are clear implications for the plans of assorted U.S. companies (many, but not all, MNC's) to invest what will amount to billions of dollars in the development of mineral, petroleum, and natural gas deposits in the Soviet Union and to be repaid for their investment largely in kind, that is, with the extracted product. In the military sense, this could increase U.S. vulnerability to a cutoff of important sources of supply for political or ideological reasons.

The effects of such potential vulnerability can only be assessed in the context of overall demand and supply, and while it is probable that the various government agencies have done studies, we have not encountered any major analytical work in the literature surveyed. 8

7 "Is This the Age of Ecopolitics," speech by Hon. Abraham Ribicoff, Chairman, International Trade Subcommittee, Committee on Finance, U.S. Senate, in Hungary and Romania, as quoted in The Wall Street Journal, September 2, 1971, p.4.

8 Raymond J. Albright, Siberian Energy for Japan and the United States, 15th Session, Senior Seminar in Foreign Policy, Foreign Service Institute, Department of State, 1972-73.
From a political standpoint, both sides will tend to create "hostages" to the good behavior of the other by increasing their mutual dependence: the United States on Soviet resources, the U.S. companies in terms of their substantial investment, and the Soviet Union on the Western capital and technology involved. There may be a parallel here to the arms control efforts to limit both the U.S. and the Soviet Union to second-strike, or retaliatory strategic postures. If damage-limiting strategies (offensive or defensive, e.g., ABM) are avoided, each power becomes a defenseless hostage to the other to a quite unprecedented degree. This may make the "economic hostage" aspect less traumatic for all concerned.

Even more significant may be the long-term political and ideological effect of intensified contact and exposure. Sovietologists differ as to the degree to which the Soviet economic interest in expanded East-West relations can lead to a willingness to make political concessions; for example, in mutually force reductions or the Middle East. To the extent that such a willingness exists, however, it is hard not to characterize it as a development of strategic significance.

However, the Soviet Union may be banking on the fact that the creation of a vested interest in continued good relations may work to their long-term advantage; one can surmise that a major agreement such as that being negotiated by Occidental Petroleum could lead it to be a potential conduit for Soviet influence against a line of U.S. policy that might lead to U.S.-Soviet friction. Cynics about the probability of a major change in the basic Soviet hostility toward the West could also point out that the emerging pattern of economic relationships gives the Soviet Union at least as many opportunities to conduct "subversive" operations against the West as the other way around.

On the economic side, it cannot be denied that, in the long term, the United States is going to need additional sources of raw materials; and it may very well be able to use additional markets—although the "grass" on the Soviet side of the market fence may not prove to be that much "greener"! The problem here is in the nature of the financing and the type of "dividend" payment. On the former, there has been criticism that long-term, low-interest loans or credits amount to subsidized transactions, and that the Soviets are getting financial "bargains" unavailable to others. Payments for investments are mostly in kind, except for the relatively rare cases where the Soviet need for a particular technology warrants the expenditure of their scarce foreign exchange resources.

The Eastern European countries, as well as the Soviet Union, have become quite adept at bargaining for deals whereby the investor or exporter must take in exchange hard-to-market products of those countries, to dispose of as he can. The danger of "dumping"
from this type of relationship is recognized in the U.S.-Soviet trade treaty and its provisions against "market disruption." Nevertheless, a centrally controlled economy of the size of the Soviet Union's could exert significantly disruptive effects on commodity markets in the United States by its selling practices, as well as its buying. The latter is illustrated all too clearly by the agricultural purchases which have, in part, resulted in the current shortages of several key feedgrains, with a resultant rise in domestic prices and the imposition of export controls. The security aspects here are indirect, to be sure; but the potential for the kind of closely-concerted operation has been clearly demonstrated.

While the United States is in a position to continue enforcing those strategic trade controls which still apply to the Soviet Union, Eastern Europe, and China, the current political climate creates almost a presumption in favor of export licensing, rather than the almost automatic decision against borderline cases which was the practice of the "cold war" period. This process will not be limited to goods, for it is apparent that the MNC involvement in the Soviet Union is leading to a diffusion of technology and management services as well. Since the Soviet Union is especially noteworthy for paying for such imported merchandise or ideas only until it is feasible to copy and produce them at home, the long-term balance of interest is ambiguously defined.

The affirmative case for continuing and expanding East-West relations has been made by a number of writers; but the risks have not been fully pointed up in the literature, except in the polemics of irreconcilable anti-communists. Some more objective research and thoughtful analysis seems called for, if only to analyze fully the potential pitfalls ahead.

The general subject of East-West trade and most-favored-nation treatment for the communist countries, particularly the Soviet Union, is now before the Ways and Means Committee. The Administration's trade legislation requests include authority to grant MFN treatment to countries not now having it, e.g., the Soviet Union, for the duration of the three-year general agreement with the Soviet Union. American labor has not reacted very enthusiastically to this proposal; it may fear, perhaps justly, that a "state-trading" economy where the concept of cost is arbitrary could

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flood the market with imports of cheap, not to say "slave" labor. (One of the selling points of the socialist countries in their proposals to the West has been that they can provide "cheap and reliable" labor.) If such a pattern does develop rapidly, it is easy to predict many political consequences, particularly the wrath of organized labor in Western Europe and the United States. A worsening of the overall political climate between East and West may result from such controversy.

In summary, while there is a vast literature on the subject of East-West economic relations and U.S.-Soviet trade, the role of the MNC is a relatively untreated topic, and the potential risks to national security do not appear to have been objectively studied. One is reminded by Lenin's dictum that "when the time comes to hang the capitalist class, they will compete with each other to sell us the rope," of the dichotomy between the interests of the Russian state and the communist ideology. It is ironic that the multinational corporation has become not only the whipping boy of leftist agitators around the world (as, for example, in the Santiago conference cited earlier) but simultaneously the Soviet Union's chosen vehicle for an infusion of Western capital and technology!

There are, in short, both pros and cons unexplored during the current euphoria in the United States and other Western governments about expanded economic relations with the Soviet Union and Eastern Europe. How these balance out may depend on the answer to the classic question of whether the communist ideology or the interests of the nation-states in the Eastern system are going to be dominant in the years ahead. This question is unanswerable at this time; but Western businessmen and governments seem willing to place large bets on the "national interest" horse.
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