

AD-763 069

STRATEGIC IMPLICATIONS OF MULTINATIONAL
ENTERPRISE: AN OVERLOOKED OPPORTUNITY
FOR APPLICATION OF THE INDIRECT APPROACH

Richard A. Bowen

National War College
Washington, D. C.

15 February 1972

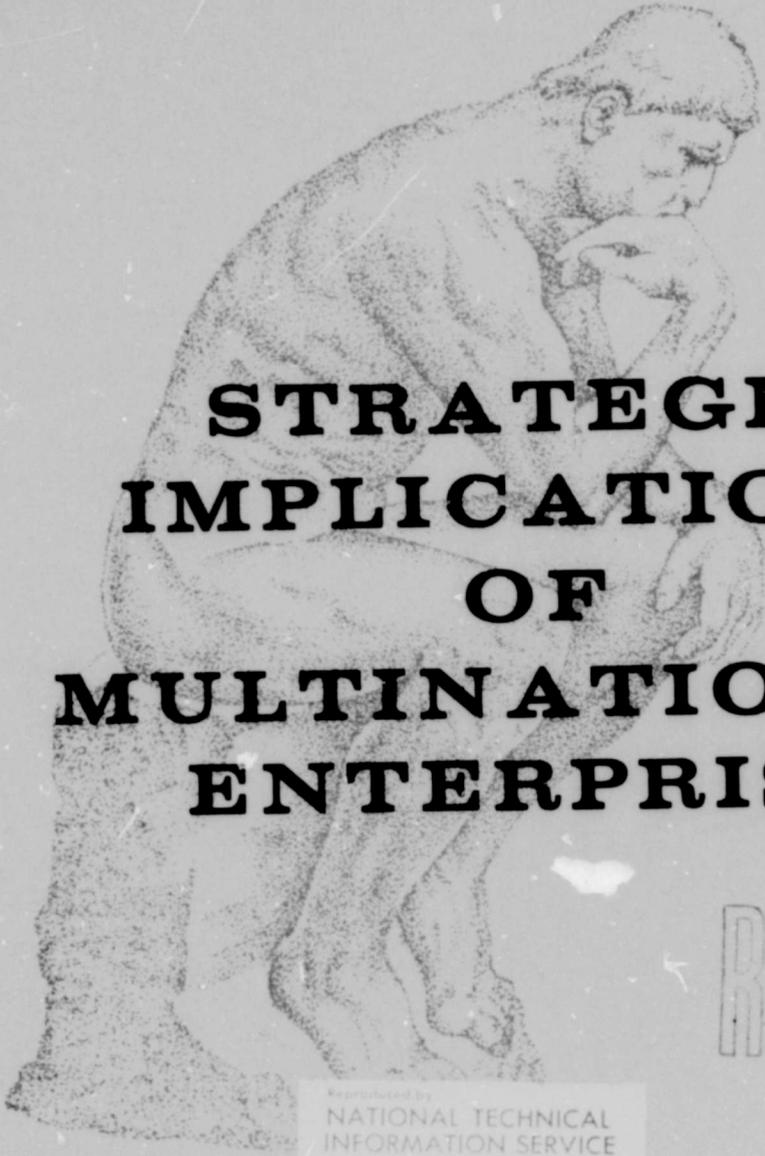
DISTRIBUTED BY:

NTIS

National Technical Information Service
U. S. DEPARTMENT OF COMMERCE
5285 Port Royal Road, Springfield Va. 22151

THE NATIONAL WAR COLLEGE

AD 763069



**STRATEGIC
IMPLICATIONS
OF
MULTINATIONAL
ENTERPRISE**

D D C
RECEIVED
JUL 18 1975
RECEIVED
C

Reproduced by
NATIONAL TECHNICAL
INFORMATION SERVICE
U. S. Department of Commerce
Springfield, VA 22151

STRATEGIC RESEARCH GROUP

FEBRUARY 15, 1972

DISTRIBUTION STATEMENT A
Approved for public release
Distribution Unlimited

**STRATEGIC IMPLICATIONS OF MULTINATIONAL ENTERPRISE:
An Overlooked Opportunity for Application
of the Indirect Approach**

by

Lieutenant Colonel Richard A. Bowen, USAF

FOREWORD

This study is published by The National War College in accordance with its mission of "conducting research and study in the field of national security."

The research and writing for this study were performed by Lieutenant Colonel Richard A. Bowen, U.S. Air Force, who is assigned to The National War College as a Senior Research Fellow.

The opinions and conclusions expressed herein are those of the author and do not necessarily represent the views of either The National War College or any other governmental agency. References to this study should include the foregoing statement.

in

THE CONTEMPORARY BUT FLUID MILIEU

I am convinced that during the last quarter of this century, ecopolitics will replace geopolitics as the prime mover in the affairs of nations . . . 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 the East and West, and the growing internationalization of production, are making the ideas 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.

--Senator Abraham Ribicoff

The growth of multinational enterprise is a distinct trend with major implications for intersocietal competition in the world.

Today, one-sixth of the gross world product is created by multinational corporations. Before this century ends, the proportion is forecast to exceed one-half. As a result of this growth, few societies on our shrinking globe will remain unaffected by trade, capital movement, and technological transfer generated by these hybrid instrumentalities. The manner in which this change occurs will influence the life style of mankind and is inexorably intertwined with ideological, political, and economic relationships within and among the world's nations.

Most striking, from the strategist's point of view, is the fact that multinational enterprises are unique instrumentalities of the developed nations of the Free World--particularly of the United States whose

multinational corporate operations account for nearly three-fourths of the world's total and whose aggregate overseas corporate sales equate to the world's third largest gross national product.

Communist and Marxist/socialist economic systems, dedicated to the principle of centralized government ownership and control, will be obliged to undergo substantive systemic evolution in order to compete with the multinational corporation. Meanwhile, the United States must take cognizance of the strength and opportunity created by multinational enterprise. It must adjust strategies and provide governmental leadership not only to maximize direct economic benefits but to take advantage of longer range indirect effects as well.

UNDERSTANDING MULTINATIONAL ENTERPRISE

What Is Multinational Enterprise?

Despite the difficulty of definition, a multinational enterprise is as easily recognized as an elephant. Very few people would define an elephant as a "mammal having a long prehensile proboscis" but nobody would fail to recognize one on the street.

--Roberto de Oliveira Campos¹

There are numerous definitions of multinational enterprise and corporate structures. Practically all incorporate a measure of equity ownership by foreigners (25 percent being a popularly accepted proportion). Some also recognize a distinction between "multinational" (integrated in terms of ownership, management, operations, and orientation of allegiance) and "transnational" (merely having operations in a number of countries).

Multinational enterprise is diverse; it has a corporate form of private ownership and control, and it has a combination of the following

¹ Former Brazilian Ambassador to the United States and Minister of Planning and Economic Development in Brazil. Interplay, March 1971, p. 25.

characteristics: (1) access to large capital reserves; (2) technological and/or marketing leads in one or more extractive, manufacturing, or service sectors; and (3) the willingness and ability to take necessary risks. It proliferates by virtue of an incessant quest for profit and feeds on technology, capital, and managerial ability. Multinational enterprises seek broader markets, tax havens, escape from home government regulation and control, and prospects for business flexibility in the face of uncertainties at home.

United States corporations have been in the vanguard of the multinational movement because of the worldwide demand for U. S. technology and entrepreneurship (sometimes attributed to manpower and production disequilibria resulting from World War II), reaction to the challenge of local foreign production in export markets, and the lure of cheaper labor.

Multinational enterprise is expanded by establishment of branches and wholly owned subsidiaries overseas, by entry into joint ventures, by "takeovers" of existing local business, and through concessionary arrangements favoring majority ownership and control by the host nation. Portfolio investment, another method used mainly by Europeans investing in the United States, is relatively passive in that management and control do not accompany ownership and holdings may be liquidated on short notice.

Regardless of the reasons for multinational expansion and the methods used, corporate executives and bankers are developing a truly global concept of business management.

Perspectives on the Magnitude of Multinational Enterprise

There were approximately 100 foreign subsidiaries of U. S. - controlled multinational enterprises overseas at the beginning of this century. Counting all separate subsidiaries and branches, the Department of Commerce identified over 23,000 foreign affiliates of American companies in 1966.² American multinationals now have \$70-\$80 billion of overseas investment assets (three times the level of the early 1960's), and the annual rate of growth is climbing past \$15 billion per year.

²See foldout graphic representation.

Estimates of aggregate sales of U. S. corporations abroad range from \$140 billion to above \$200 billion per year and are equivalent to the world's third largest gross national product (ranking immediately below the United States and the U. S. S. R. but ahead of Japan and Germany). To illustrate, in 1970 General Motors had a relatively "bad year" but still had sales larger than the GNP's of 123 of the world's 146 sovereign nations.

Trends in the Growth of Multinational Enterprise

If there is one point of agreement, it is that multinational enterprise will continue to grow. Few observers are willing to make specific projections, but those who do present imagination-stretching forecasts. Richard Barber, for example, says:

A good guess is that by 1980, three hundred large corporations will control 75 percent of all the world's manufacturing assets. . . . Within a decade every firm of consequence will operate extensively in twenty or more countries, guided by efficiency and the quest for profit and paying little but formal attention to national boundaries.³

Incentives which prompted these forecasts are not apt to change rapidly. Transportation, communications, market opportunities, tax inducements, the appeal of global flexibility, and the prospects of imbalanced labor costs appear favorable for the future.

Problems and Proposed Solutions

The strategist concentrates his concern on the maintenance, control, and use of the power of multinational enterprise (in combination with other elements of national power) to attain national objectives. But what could be more elusive than an attempt to channel the power and influence of numerous privately-owned multinational corporate entities in order to serve the national interest? Moreover, what could be more of an anathema to multinational business than to have its multinational character threatened by public officials who would seek to use it in pursuance of national policy aims?

³Richard J. Barber, The American Corporation: Its Power, Its Money, Its Politics (New York: Dutton, 1970), p. 264.

Multinational corporate executives are committed to a delicate balancing act. They must operate at a profit to maintain solvency, act as good corporate citizens to maintain their welcome in host nations, and comply with home and host government regulations to sustain their charters. Furthermore, they must reckon with labor's growing international collective bargaining power. Their interests are transnational in character, but they operate subject to national sanctions.

There have been numerous proposals for "codes of good conduct" or "government policy standards" for multinational corporate behavior. But these reforms must be buttressed with international conventions guaranteeing some universality of governmental performance, non-discriminatory treatment, commonality of law, and insurance against uncompensated nationalization. Preliminary work in these areas is ongoing but, unless and until substantive progress is made, enterprise will continue to find ambiguity of identity advantageous and ambiguity of allegiance necessary to survival.

BROAD IMPLICATIONS OF THE GROWTH OF MULTINATIONAL ENTERPRISE

Concentration of Power

The possibility that two or three hundred giant corporations could control over half the world's productivity has staggering implications. Those who subscribe to the idea of business and banking combines becoming governments unto themselves are overimaginative; nevertheless, because multinational corporations are relatively unencumbered by ideological and political constraints, they can be factors for stability that provide supplementary (and less volatile) channels for probing new and broader intersocietal relationships. A concomitant aspect of the concentration of economic power is the prospect of using the world's resources more efficiently in the interest of global economic welfare. This too would be stabilizing. Conversely, we could witness occasional destabilizing reversions to exploitative practices and economic colonialism. Factors which render this increasingly unlikely will be discussed below.

Increased Interdependency

A second general observation concerns interdependency among nations linked by multinational enterprise. Like a spider web, each

is related to the whole and disturbance of one affects all others. Entrepreneurial interdependence is closely related to the concept of functional integration as a catalyst for eventual political integration. This idea rests on the assumption that nations will incrementally yield sovereignty to one or more specialized supranational bodies because of compelling economic, technical, or social benefits to be derived. The result goes beyond international cooperation in that the commitment would be of a permanent nature and would include renunciation of the right to opt out of the limited union. If, in fact, business continues to internationalize at the present rate, it is conceivable that nations will be under increasing pressure to follow suit. But supranational business federations or "cosmocorporations"⁴ will become the wave of the future only as fast as political preconditions will permit. For the present, interdependency resulting from multinational corporate operations mainly serves as a damper on precipitous unilateral actions. It encourages consultation and cooperation.

Propensity for Peaceful Relations

Third, multinational enterprises are purveyors of peace. They need international cooperation and a tranquil environment for production and marketing of their goods. Political and economic instability spell uncertainty and increased risk. War introduces barriers to mobility of goods and people and threatens the vital lines of communication between and among highly interdependent corporate units. Multinational enterprise has much to lose and little to gain from disharmony, tension, and war. Although business cannot be expected to prevent armed conflict among nations, it is a growing force for discouragement of hostilities in an increasingly interdependent world.

Proclivity for Political Tension

A fourth broad implication of the growth of multinational enterprise is the proclivity for political tension as a consequence of heightened economic interaction. In foreign direct investment, an inherent contradiction exists between the need for capital and technology on the one hand, and the fear of domination on the other. Nationalization of U. S. firms in Latin America, resentment over actions of U. S. corporations to elevate the status of blacks in their employ in South Africa, and the many

⁴George W. Ball, "Cosmocorp: The Importance of Being Stateless," Columbia Journal of World Business, November-December 1967.

nationalistic outcries produced by our strong investment position in Canada and Europe are but a few manifestations of this implication. Business, in its own self-interest, attempts to limit escalation of issues to the political level; but passions of nationalism and independence run high. Problems flowing from the spread of corporate influence will be the rule rather than the exception. The challenge for business and government alike is to minimize their scope and magnitude and to control associated instability.

IMPLICATIONS FOR DEVELOPED NATIONS OF THE FREE WORLD

Within the Free World multinational enterprise can become a powerful force for unity, strength, and prosperity--or a source of divisiveness and hostility. American corporations are capturing larger segments of the economies of Canada, Western Europe, and Australia. So far, Japan has held us at bay with stringent controls. But the recent trend in Japanese policy is toward increased receptiveness to U. S. investment.

There is little likelihood of achieving an "allied" strategy toward the nonmarket nations and the lesser developed countries (LDC's) in the era of multinational enterprise unless and until we can more closely agree on common objectives and mutual interests for this new era. Such agreements would have to face squarely the relationship of government, enterprise, and labor. Until the unique problems of multinational enterprise are attacked in an appropriate forum (the Group of Ten or the 22-nation Organization for Economic Cooperation and Development, for example), the United States and its allies will be engaged in economic fire fighting and crisis management. The price of neglect will be protectionism, trade and investment war, discrimination, and resurgent economic nationalism--all of which bear on national and collective power. In such an environment, foreign policies would be jeopardized by cut-throat economic competition among allies. Each would see its trading and investment partners as adversaries and prospects for a widespread and Western-oriented Cold War would be manifold. Multinational enterprise would be exposed on the front lines of such a battle. The anachronistic political lust for complete independence and self-sufficiency needs to be replaced with policies which take cognizance of the growing reality of interdependence.

United States government and commercial leadership can and should deemphasize our dominant image and provide a sense of direction toward goals of further internationalization of Free World trade and investment.

Economic harmony and equilibrium among Free World nations would provide the strength and resolve to deal with nonmarket countries and build bridges with coordination and confidence. The lesser developed countries would profit from the stability incurred and could realistically expect a dedication to development spearheaded by the great capacity of internationalized corporations bridled to serve the public need. The alternatives are focalization or frustration.

IMPLICATIONS FOR THE LESSER DEVELOPED COUNTRIES

The LDC's are pawns in a game of giants. They are faced with the prospect of satisfying incessant demands of needy populations with resources which are commanded by colossal governments and multinational businesses whose sales exceed their own gross national products.

For LDC's, the growth of multinational enterprise is both a blessing and a threat. Multinational corporations can mobilize, organize, and apply their resources to the vexing task of modernization⁵ or they can overwhelm local competition, remit (refuse to reinvest) profits, upset customary wage patterns, relocate facilities if the going gets uncomfortable, refuse to cooperate with national economic plans and social goals, capture key growth sectors, and exert political influence arising from their economic stature. Within the host country, opposition power groups and the liberal intelligentsia often amplify the threat image by charging that local distribution of profits from multinational corporate operations serves to strengthen and sustain unpopular and repressive regimes.

Technology, capital, managerial talent, and market control remain foremost in relationships between foreign enterprise and the LDC's. As long as business has something LDC's need, its

⁵Modernization in this sense equates to industrialization, satisfaction of the desire to accrue "add-on" values and to create import substitutes through local production and processing, providing employment for growing urban populations, and creating export products (and markets) which can ameliorate chronic foreign exchange deficits.

relative bargaining position is favorable. As the transfer progresses⁶ (as in the case of many extractive industries), business becomes increasingly vulnerable and the host government is faced with the dilemma of improving its position with fair and adequate compensation to the foreign corporation (costly in terms of current assets) or without fair compensation (often more costly in political tension and in discouragement to further foreign investment).

LDC's have a number of options in this ongoing process. They can: (1) bargain with multinational corporations (MNC's) on a case-by-case basis; (2) attempt to pit one MNC against another competitively; (3) apply discriminatory controls favoring local government and business; (4) unite with other countries to maximize benefits (e. g., the Andean Group, which requires all potential investors to plan for eventual divestiture--or the Organization of Petroleum Exporting Countries (OPEC) which has developed a united bargaining front); (5) restrict access to local capital; and (6) reduce or withdraw investment incentives.

In the long range, many LDC's are in an increasingly favorable position to capitalize on their natural resource wealth. There is little doubt that, as the seven percent of the world that consumes 40-50 percent of its resources becomes more dependent on raw materials from the developing countries, the leverage of certain countries (or groups such as OPEC) will increase. This is a fragmented picture, however, because there is no way to forecast the discovery of new reserves, new processes for economic extraction of lower grade reserves, and development of substitutes through new scientific techniques.

Finally, as an alternative to dealing with multinational corporations, LDC's have the option of turning to the nonmarket socialist countries for their needs. But this posits political as well as economic problems. Where do these nonmarket countries fit into the era of internationalized production?

⁶The overall position of the LDC's vis-a-vis the multinational corporation is enhanced as national planners become more sophisticated and as the quality of local labor and management is upgraded. This contributes to more egalitarian bargaining and prospects for greater local benefits at reduced costs. This is often manifested by demands for increased local ownership and management or outright nationalization of the indigenous subsidiary.

IMPLICATIONS FOR EAST-WEST RELATIONS

When the time comes to hang the capitalist class,
they will compete with each other to sell us the rope.

--Lenin

A Scenario

There could scarcely be more of a theoretical gamble than speculating on the future of East-West relations in light of growing multinational enterprise. Two factors make this difficult. The first is the absence of a basis for comparison in the fundamentally antithetical economic systems of the East and West. Multinational enterprise, based on private ownership, international markets, and convertible exchange is unique to the Free World. Second, we appear to be witnessing the dawn of a new era in East-West relations. Indications of detente--summit meetings, SALT talks, Bonn-Moscow and Bonn-Warsaw treaties, Berlin accords, trade increases, truck-manufacturing deals, visions of European Security Conferences, and Mutual and Balanced Force Reduction negotiations--herald the possibility of substantive change in world ecopolitical relationships. Such changes could have a profound impact on the scope and magnitude of multinational corporate operations.

From a purely Cold War stance, one could observe and postulate the Free World position as follows: we produce well over two-thirds of the estimated three trillion dollar gross world product; the growth rate of our multinational enterprise exceeds that of the Soviet Union, her satellites and other nonmarket countries; and although the idea of a controlled economy like that of the U. S. S. R. has appeal from a structural point of view (particularly for countries in the early stages of development), the historical record is not convincing. Moreover, its associated cost in civil liberty does not make it a particularly attractive model. To complete the picture, it would be necessary to assume that the Free World would maintain a strategic deterrent posture sufficient to preserve and protect our free enterprise system and that our adversaries would use their strategic military power in a rational way. In such a scenario, long-range prospects for the Free World seem quite favorable. Multinational enterprise, if properly guided and controlled, would contribute to more efficient use of human and material resources and realization of economies of scale. Its growth could only serve to reinforce our already strong position (politically, militarily, economically and psychologically). No communist state could seriously contemplate "burying" us.

Essentially, this scenario is not wholly implausible. The strategic military stalemate is likely to continue into the foreseeable future. But the economic aspect involves both maintenance of solidarity in the West and bridge-building to the East. Transnational use of the factors of production can be a powerful tool if--and only if--it is collectively nurtured and guided by its Free World creators and sponsors.

Should recent diplomatic (and business) engineering actually produce bridges to the East, the Free World would have greater opportunity to penetrate technology and product-hungry Eastern nations with its strongest weapon--economic competition.

The Real World

On balance, prospects for enactment of the "penetration" scenario appear to be improving. As Samuel Pizar said recently, ". . . for the first time in 25 years East-West trade is a rational debate."⁷ Recent overtures to Western business by Hungary, Romania, the People's Republic of China, and the Soviet Union are encouraging. So too are renewed invitations from Egypt and the Sudan which indicate a lack of Soviet success in challenging Western influence in the LDC's who might, after all, prefer doing business with a profit-oriented multinational corporation than with an ideologically oriented socialist foreign trade ministry.

Nevertheless, problems are profuse. In addition to thawing the Cold War, we are faced with: an endemic ideological obstacle; a systemic barrier that prohibits either foreign or private ownership; a lacuna of convertible currency and foreign exchange reserves as a basis for commerce beyond simple barter; lack of a common pricing system; satellite governments which are not fully autonomous; and demands for "turn key" plants for local ownership and control in lieu of partial or complete ownership and control from the Free World orbit. Prospects for the U. S. to follow the lead of its West European allies aimed at liberalization of economic ties with the East (e. g., the broad range of actions recently recommended to the President by the

⁷Samuel Pizar quoted in "Nobody Here But Us Marxists?" Forbes, July 15, 1971, p. 48.

Commission on International Trade and Investment Policy)⁸ are fraught with political pitfalls.

Implications of the growth of multinational enterprise for East-West relations are mainly associated with collective enhancement of the relative economic strength of the Free World. The opportunity to exercise this strength by shifting from political to economic competition vis-a-vis the Marxist/socialist camp is delicate and complex. Recent initiatives notwithstanding, this eventuality is not likely to materialize quickly. When it does, we should seize upon the opportunity. Until it does, we must be extremely careful lest we allow our source of economic power to be weakened by divisiveness in our own camp. What then is the position of the United States in this era of multinational enterprise? What are key advantages and disadvantages and what strategy should we follow to achieve security, peace, and prosperity for ourselves and the changing world around us?

SOME ADVANTAGES FOR THE UNITED STATES

The Advantage of Size

Our overwhelming economic size and relative dominance in the field of foreign direct investment place us in an enviable position--but one having grave responsibilities. An increasing proportion of the world's production is flowing from foreign-based output of American corporations. As our investments accumulate, so do returns in the form of interest, dividends, earnings, fees, and royalties. Annual earnings of nearly eight billion dollars are ". . . about twice the annual capital outflow involved in U. S. direct investments abroad. These earnings have become a major positive factor in our balance of payments."⁹ These in-flows already exceed the cost of our military expenditures overseas by more than 50 percent.

⁸"United States International Economic Policy in an Interdependent World," Report to the President submitted by the Commission on International Trade and Investment Policy, Washington, D. C. July 1971. (Williams Report)

⁹ Ibid., p. 376.

Advantages Relating to Scientific and Technological Strength

Aside from the financial aspects, multinational corporate operations place the United States in a favorable position to retain her technological lead. The outward transfer of American technology is a common target for criticism, but the inward flow is seldom heralded. Raymond Vernon reckons that our "bigness" is rewarded not only through production advantages (economies of scale) but, more importantly, by enabling mobilization and application of the diverse scientific and technical elements needed for productive innovation in today's world.¹⁰ This capacity to turn discoveries into marketable products is paramount. But great importance should also be attached to the related capacity of our foreign-based companies to locate and capture unique ideas and processes on a global scale, in practically all sectors--petroleum, chemicals, machinery, pharmaceuticals, advanced electronics--the lot. Technological superiority is a cornerstone of national security. Implications of this inward transference reach far beyond the economic realm.

The Advantages of Resource Accessibility and Flexibility

Another manifest advantage of our position in corporate internationalization is that it enhances the possibilities for acquiring raw materials. Given our declining position with regard to mineral self-sufficiency, this could be critical. The President's Assistant for International Economic Affairs cites a projection that, within 30 years, we shall be importing 30 to 50 percent of our total mineral and raw material requirements.¹¹ While it cannot be stated as an enduring certitude that nations having the most far-reaching business operations will have an assured resource base, there can be little doubt that American corporations engaged in petroleum and mineral extraction

¹⁰ Raymond Vernon, Sovereignty at Bay; The Multinational Spread of U.S. Enterprises, (New York: Basic Books, 1971), p. 95.

¹¹"America: Still the Top Producer, But . . .," Interview with Peter G. Peterson, Assistant to the President for International Economic Affairs, U.S. News and World Report, July 12, 1971, p. 35. See also Raymond Ewell, "U.S. Will Lag U.S.S.R. in Raw Materials," Chemical and Engineering News, August 24, 1970, p. 42. He concludes that the United States is self-sufficient in only 10 raw materials, while the Soviet Union is self-sufficient in 29.

overseas contribute significantly to the overall power and prosperity of this country. Those engaged in manufacturing and services abroad indirectly accomplish the same end through comparative advantages of lower cost foreign labor markets and through expanded sales. Both contribute to the overall national economic and capital balance.

Advantages in Foreign Policy Execution

Political and psychological advantages are both significant. The vastness of our enterprise not only gives unquantifiable diplomatic clout but it benefits the economies of host countries, thereby improving their living standards and their capacity to contribute to Free World collective security arrangements. In a more abstract, but nonetheless important, sense, multinational businesses contribute to the exchange of ideas, complementing achievement of common appreciation of world problems--and the possibility of common agreement on solutions.

Advantages for the Conduct of Economic Warfare

American multinational corporate activities could provide an invaluable reservoir of knowledge, strength, and control should it become necessary to shift gears from protracted economic competition to all-out economic warfare. The extent of their contribution would be contingent upon the nature and scope of the crisis or armed conflict, the alignment of belligerent and neutral powers, and the quality of study and contingency planning accomplished to insure maximum use of this source of power to complement other diplomatic, military, psychological, and economic efforts.

The economic warfare potential of parents and overseas subsidiaries and branches of American enterprises is vast and complex. Should circumstances provide the will, American policies of economic pressure and coercion could play a major role in the outcome of a conflict. At the outset, political alignments could be effected in our favor. Strategic and critical material and human resources could be obtained for allied purposes or denied to the enemy through export and re-export embargoes, preemptive buying, or control and manipulation of financial assets, transportation and communication avenues and facilities, and food supplies. Base, ports, and overflight rights of allied and enemy commercial and military operations might be substantially affected through multinational corporate activities exclusive of, or in concert with, political and military pressures.

The potential contribution of American multinational corporate activities is enormous, but using this potential advantageously presupposes a high degree of policy planning and coordination. A compartmentalized view of strategy will not suffice if peacetime planning for wartime use of this powerful adjunct to other forms of national power is to be effective.

SOME DISADVANTAGES FOR THE UNITED STATES

Unfavorable implications of multinational enterprise involve both economic and political considerations. In the economic area, organized labor deprecates the loss of U.S. jobs to foreign labor markets and importunes Congress to quell the rise in overseas production by American multinationals. Union leaders cite unemployment and ailing industries as effects directly related to ". . . multinational corporations which are undermining the American economy and unfairly eliminating the jobs of American workers."¹² In the Williams Commission Report to the President, the minority statement of labor leaders I. W. Abel and Floyd E. Smith recommends tax and capital flow measures to arrest "the global runaways" which export American production, technology, and jobs.¹³

Political arguments against the multinationals are widespread. First is the criticism that the American economy is too dominant, creating resentment because we are less dependent than our Free World allies and prone to act unilaterally or extraterritorially without due consideration for their welfare. The sum of this position is that our gigantism constitutes a threat which engenders political liabilities outweighing economic benefits. A second criticism involves protection of the rights of U.S. investors against nationalization, expropriation, and discrimination. Some critics level their sights on the Hickenlooper Amendment and foreign policy repercussions which could trap us in a series of diplomatic

¹²Contained in a letter to the President of the United States from Representative Thomas E. Morgan on behalf of the Pennsylvania Congressional Delegation. U.S. Congress, House, Congressional Record, October 21, 1971. P. H9918.

¹³Williams Report, op. cit., p. 341.

crises or gunboat diplomacy commitments.¹⁴ Others lament the fact that American taxpayers incur liability if victimized firms are insured by the U. S. Government's Overseas Private Investment Corporation (e. g., the Chilean debacle). Third is the classic "anti-trust" argument which appeals to opponents of big business and monopolistic practices (at home as well as abroad). Fourth is the argument that multinational enterprise is the main conduit for technological leaks. Some view this as an economic problem (e. g., labor, spokesmen, op. cit.), while others see it as a harbinger of our strategic downfall. Finally, there is developing concern that multinational enterprise is becoming "supra-national" in character. Apprehension centers on the idea that global businesses might escape governmental jurisdiction, thus becoming governments unto themselves, free from legal obligation to serve the public interest.

Militarily, disadvantages center on the possibility of yielding weapons-oriented technology to the enemy and fear of diminishing industrial self-sufficiency. Those responsible for our national security quite naturally oppose the idea of dependency. Our eroding position in capital shipbuilding is no secret--nor is the Army's rescue of the old Hamilton Watch Company as the last American producer of military fuse mechanisms.

THE STRATEGIC SPECTRUM

Internationalization of production is a natural and ongoing phenomenon which spells improved efficiency and better use of the world's scarce resources for the benefit of mankind. There is no area in which the United States has such clear dominance as in the strength of her economy and its globe-straddling technological and production base. This strength should not be frittered away by failing to employ it or by complacently allowing it to decay. Its use (and safeguards against its misuse) will require creation and implementation of a new and multi-faceted segment of our grand strategy for the age of "ecopolitics."

A strategy tailored to accommodate the growth of multinational enterprise could be passive or active in character and direct, indirect,

¹⁴The Hickenlooper Amendment encourages the President to cut off foreign aid to any country which expropriates American investments without fair compensation. A recently introduced amendment would remove the Chief Executive's prerogative and make the curtailment of aid mandatory.

or both in structure. Extremes of alternative approaches would approximate the following:

A Passive Approach

On the matter of initiative, we could follow along the path of passivity which would mean: undue emphasis on a laissez faire environment; government reaction to problems rather than coordinated government, business, and labor action in a predictive sense; the absence of a composite and cohesive strategy from the summit; problem solving on a piecemeal, case-by-case basis; no serious attempts to ally key domestic branches, departments, institutions, and interest groups; and no clear "team" position for U. S. envoys negotiating in international forums.

An Active Approach

Alternatively, we could elect an activist mode and assume the international leadership role on an as yet uncharted course. This would involve: an ongoing effort to study and understand multinational enterprise and its consequences; formulation of a grand strategy to guide foreign economic policies and tie the activities of American multinational corporations more directly to national objectives and interests; renewed efforts to achieve substantial agreement among contending domestic factions; isolation of areas of disagreement and recognition of the need to minimize their effect at home and in international negotiations; equitably funded ancillary programs to mitigate domestic economic and social turbulence and facilitate difficult adjustments associated with internationalization of production; acceptance of an active governmental role and a new model of government, business, banking and labor cooperation on the American scene; an ongoing and critical review of constitutional provisions relating to responsibilities for regulation of foreign commerce and the capacity of existing legislative and executive bodies to fulfill their pervasive obligations; an evolving attitude toward the merits of Free World multilateralism and the limits of the concept of self-sufficiency; concentration on the nature and size of the American "economic pie" rather than divisive argument over how the pie is to be sliced; and sustained high productivity coupled with maintenance of our lead in technological research and development and open competition for our fair share of the global benefits of multinational enterprise.

Elements of a Direct Strategy

There are various possibilities for symbiotic union of the power of

multinational enterprise with our ecopolitical strategy but these do not include using multinationals as weapons of economic warfare.¹⁵ If vigorously employed in a direct strategy, our strong lead in the field of multinational enterprise could yield short-term economic gains; but at a high cost in political tension among our allies and those adversaries we wish to penetrate and engage in competition. This would clearly be a counterproductive approach. Pragmatically, such a concept is precluded by, inter alia: a lack of contemporaneous government control and influence over multinational corporate plans and operations; the necessity for multinational corporations to maintain ambiguity of identity and allegiance to survive in the present foreign investment environment; and the related and predictable negative reaction of host countries. Our long-range ecopolitical strategy may be "direct" insofar as it applies to cultivation of the international investment climate but not to the extent of engaging in economic coercion. Such a strategy might include the following elements:

1. A solid foundation properly proclaimed. The good and sufficient reasons to encourage proliferation of multinational enterprise should be clearly enunciated. Domestically, consensus is needed on the contribution multinational enterprise can make to national power, prosperity, and national interests. Broad popular support is essential before the various branches of government, organized labor, and business can begin to work in concert to give effect to its growth and to engender support for inevitable adjustments which must be made in the process. Overseas, we should emphasize virtues inherent in multinational corporate operations such as public ownership, participatory management, diffusion of technology, efficiency and economies of scale, comparative advantage in international production, and shared rewards. Among industrially advanced nations, we should manifest co-production possibilities (e. g., for military hardware, space projects, and ecological systems) which contribute to collective allied power, prosperity and comfort. Among developing countries we should stress the capacity of multinational corporations to mobilize resources for development and to attack world poverty. These are continuing and largely psychological tasks to be undertaken both at home and abroad.

¹⁵Except during periods of crisis and armed conflict affecting national survival--whereupon our multinational enterprises would, to the extent possible, be committed in conjunction with other elements of national and allied power to reinforce collective security and to weaken the enemy by denying it resources and disrupting its external commercial and industrial assets and operations.

2. Promotion of Multilateralism. The success of multinational enterprise is predicated on recognition of its benefits by host countries. Invitation for its operation must remain extant. In the words of the Nixon Doctrine, the emphasis is on "partnership." Multinational corporations can operate most efficiently within the context of a Free World economic community. This concept demands closer-than-ever harmonization of international economic policy with overall foreign policy objectives.

3. Maintenance of a Firm but Fair Posture. We must have empathy for our allies' apprehension about "sleeping with an elephant." Our size, technology and management advantages render us much less vulnerable to economic turbulence. Every healthy elephant has to twitch occasionally, but a low-as-possible profile is essential if American-based multinational enterprise is to endure and prosper.

4. Provision for Continuous Assessment of Our Relative Cost/Benefit Position. It is essential that we develop and maintain measurement systems to insure continuous awareness of the relative cost/benefit balance with respect to multinational enterprise. Within the United States, a plethora of executive departments, agencies, councils, and commissions compile statistics and conduct studies contributing to such an assessment. So too do legislative committees, university economists, corporations, associations, and labor organizations. What is lacking, however, is a framework wherein views of this multiplicity of public and private interest groups can be exposed, analyzed, and reconciled in the light of overriding national strategic considerations. With suitable arrangements, statistical representations of multinational parent firms, labor, and government could be collated and weighed against important public interests and national security considerations. Broad participation in this process would serve to encourage resolution of differences and isolate key areas of disagreement for action by policy makers and legislators.

Improved assessment of the relative costs and benefits of U. S. multinational corporate activities would facilitate decisions on international concessions (which will be required more frequently as internationalization progresses) and help to clarify policies affecting domestic adjustment programs and regulation of corporate and labor activities.

These few generalizations may seem somewhat mundane to those who would argue for a more forceful direct strategy and more rapid capitalization on the strengths of our economic advantage in the era of multinationals. But the direct strategy is mainly a conciliatory proposition

aimed at creating and sustaining a favorable climate for international investment. Its imperatives are internal coordination, external statesmanship, and application of the golden rules of commerce. Its rewards are augmented power for the United States and her Free World allies. The payoff comes from protracted application of the indirect approach.

Elements of An Indirect Strategy

Used indirectly, with the goal of proliferation of the American system of values and way of life, U.S. multinational enterprise could at once: (1) serve the national interest and; (2) function as a catalyst for gradual internationalization through the medium of increased understanding and commonality of interest flowing from a broad range of political, economic, and cultural contacts. The obvious potential of the indirect approach is that an element of national power (American-controlled multinational enterprise) is applied over a long period of time in order to achieve national objectives (economic strength and prosperity or other security interests related to economic capacity) in consonance with the overall national interest (preservation and perpetuation of the American culture, institutions, and territory). A less obvious aspect is that embodied in the realization that all societies and cultures on this shrinking globe are engaged in an inevitable competition for preeminence and survival. Those that can project their image (and exert the predominate influence and control over the long range) will shape the world of the future. If we wish our values and life styles to prevail, we are obliged to compete with other culture and power centers. Multinational enterprise offers a tremendous lever toward this end. Its growing arsenal of foreign-based business operations is working for us around the clock. Its osmotic action transmits and transfuses not only American methods of business operation, banking and marketing techniques; but our legal systems and concepts, our political philosophies, our ways of communicating and ideas of mobility, and a measure of the humanities and arts peculiar to our civilization.

The end result of this indirect projection is difficult to forecast but, if and when nation-states yield to increasing sentiment for supranational federation, our free and democratic way of life, based on the practice of individual liberty and respect for human rights and the dignity of man, would be better understood, respected and among the leading contenders.

CONCLUSIONS

Multinational enterprise is a significant element of power of the United States and her Free World allies--and one for which there is no direct equivalent in the Marxist/socialist world. Its potential for this nation and for mankind is contingent upon broad appreciation of its value, domestic cooperation in its development, and diligent exploitation of its power in the world arena.

Given the proper strategic framework, the phenomenon of growing multinational enterprise, preponderately American, can play a major role in improving our overall political, military, and economic strength in the short- and intermediate-range future. Discretionary use of this strength is dictated by the heterogenic nature of its composition and its vulnerabilities in the world environment. With proper planning, however, multinational enterprise can be employed in a coercive sense to supplement diplomatic, economic, military, and psychological elements of national and allied power during periods of crisis and armed conflict. The caveat to be observed in engaging multinational corporations in a direct national or allied strategy is that associated with the possibility of "killing the goose that lays the golden egg."

In the longer range, our pervasive corporate operations could become the primary element of an indirect strategy aimed at perpetuating and projecting our principles and values as we cooperate in the creation of new political units and a world society.

FOR THE FUTURE

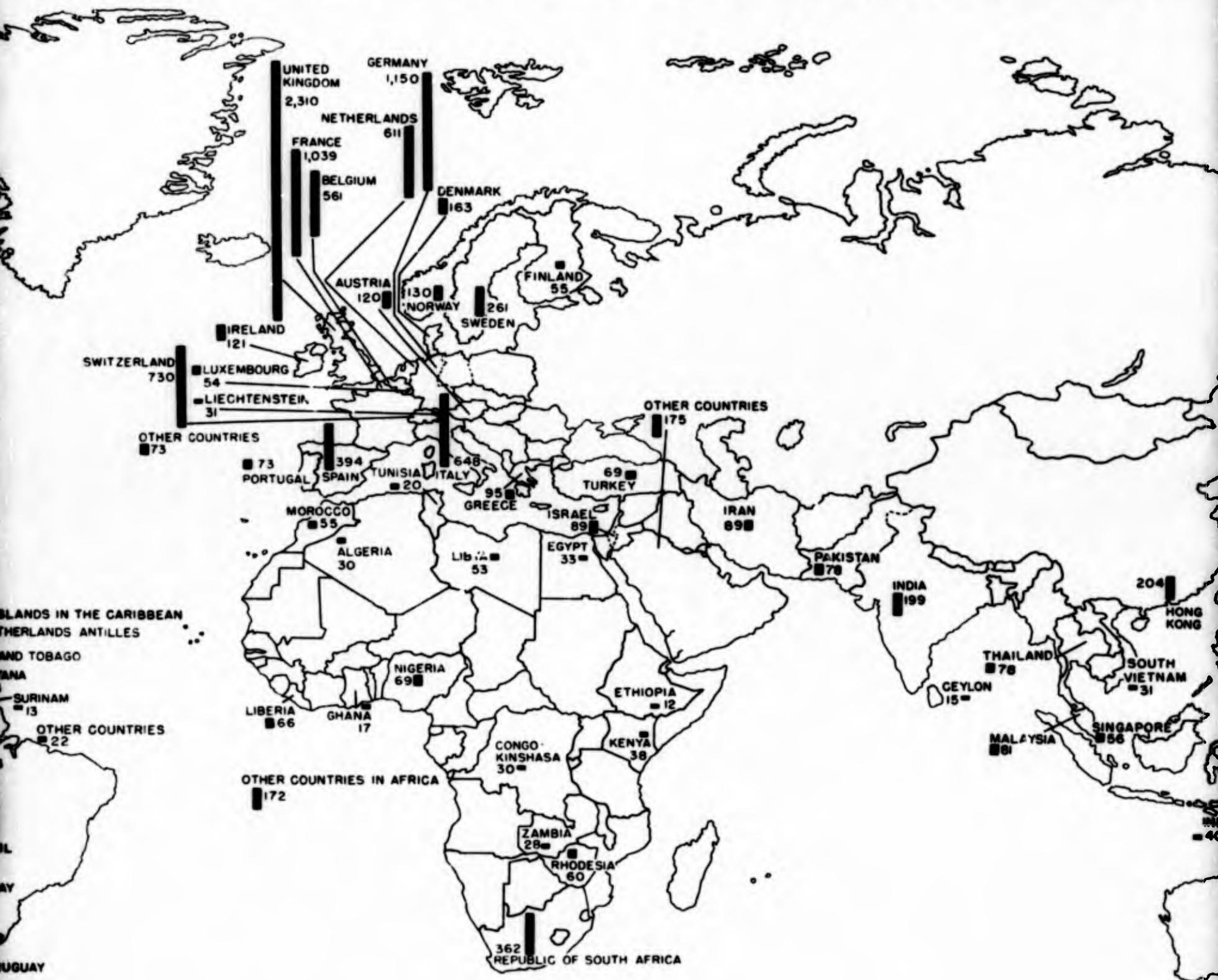
The challenge is, and will remain, for our leaders to give such ideas effect. The recently established Presidential Council for International Economic Policy is a beginning step in the right direction. So too is the proposal for a Department of Economic Affairs which would help resolve the dilemma of atomization at the economic policy level. But until we are able to achieve closer unity within the Executive and between the Executive and Congress and to design a framework wherein top authorities from business, labor, and government can plan and treat problems in a predictive sense, we are destined to diversity and an unfulfilled leadership role at the international level.

FOREIGN AFFILIA



A

AFFILIATES OF U.S. CORPORATIONS-



B

U.S. CORPORATIONS-1966

22



SOURCE: U.S. Dept. of Commerce. U.S. Direct Investments Abroad 1966