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**MULTINATIONAL CORPORATIONS VIEWED  
IN A NATIONAL SECURITY PERSPECTIVE**

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**MULTINATIONAL CORPORATIONS VIEWED IN A  
NATIONAL SECURITY PERSPECTIVE**

by

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**US ARMY WAR COLLEGE  
Carlisle Barracks, Pennsylvania  
7 June 1974**

MULTINATIONAL CORPORATIONS VIEWED IN A NATIONAL SECURITY PERSPECTIVE

*author studies the*  
Introductory assumption

→ The fast-growing, high-technology multinational corporations, which are central in facilitating the pace and quality of world-wide socio-economic and industrial development, *He maintains and proves they possess* certain inherent characteristics which run counter to present concepts of national security. ←

If, in fact, the multinational corporations must optimize their mix of capital, labor, land and management on a "global" basis, without accepting the potentially crippling "national security" constraints, then their on-going development will be incompatible with our present understanding of national security. If it can be demonstrated that the multinational corporation(MNC) is either determined, in an evolutionary sense, or essential to on-going socio-economic development, then perhaps it is our traditional and legalistically-anchored concepts of national security which must be questioned.

It is in such conceptual frame that this research essay is aimed in order to develop new perspectives in the relatively fixed world of national security concepts.

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This research paper has been prepared by Colonel M.C. Teschendorf in partial fulfillment of graduation requirements from the U.S. Army War College, Dated December 30, 1973.

*that such corporations*

The subject of national security is sufficiently complex that some effort at delimiting the subject must be undertaken. Because of the intent of this thesis, we are dealing almost exclusively with strategic elements of security, notwithstanding the inevitability of occasional boundary crossover. A dramatic example may serve to exemplify this possibility.<sup>1</sup>

Enough military planners the world over saw in this event a radical shift in the conventional notion of naval supremacy as the exclusive domain of the major powers. Industrial nations such as Sweden, Germany, Italy and others immediately began the design and construction of high-powered, high speed anti-ship missile gunboats, both for their own navies and for a large number of foreign sales. At last count, over 30 nations have substantial orders pending, including some inland nations, who now see some potential in this critical branch of their military services.<sup>2</sup>

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<sup>1</sup> Prior to the Egyptian-Israeli war of 1967, it may be said that the USSR development of the STYX surface skimmer missile was a strategic undertaking, part of a weapons system strategy. This is not unlike a similar development of the U.S. "Exocet" missile. When the Israeli destroyer, the Elath presented itself as a target and was promptly dispatched to the bottom, this was a tactical event. The implications emanating from this event, however, had a strategic consequence of immense import to strategic warfare planning around the world. Without seeking to exaggerate the implications, nor to rebut the the forces taking a lesser view of the event, it appeared that perhaps a crucial change in naval warfare had occurred. This fact may not, nor has it yet, in certain quarters, been officially acknowledged.

<sup>2</sup> Captain L.I. Smith(USN), "New Naval Tactics", Ordnance (Nov-Dec. 1972, Washington, D.C., pp. 222-225). It is the terror of such "breakthroughs" that helps to motivate congressional outlays for military R. & D.

When one considers that the leading elements of our societies are committed, barring a holocaust, to a rapidly accelerating technocultural development, it is a concomitant fact that the rationality which underlies all technology, must prevail. The irrational and frightened protests against MNCs, from various vested groups of our respective societies are both vocal and understandable. Just one example ought to suffice in view of the need for brevity. The MNCs were under sharp attack from their staunchest foe, the AFL-CIO, in sharp contrast to the witnesses appearing for the government and the corporate world. A.J. Biemiller, Chief of AFL-CIO lobbyists, told the Senate Finance Subcommittee on International Trade, March 6, 1970,<sup>3</sup> "We Believe that the unregulated activities of U.S. based MNC firms are a major factor in the worsening position of the U.S. economy in an ever changing world." His closing testimony was perhaps most significant: "We are convinced that American based MNCs export American jobs, export American technology and export American capital."

He further implied a possible loss of technological security by citing missile sales to Japan of the highly successful THOR-DELTA missile delivery system. It was widely held that with little modification, the system could carry a nuclear warhead in the 1500-5,000 mile range, clearly a potentially offensive weapon.

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<sup>3</sup> As reported in the June 1970 issue of the State Department GIST.

In sharp contradiction to the idea that MNC development will cost U.S. domestic employment or otherwise injure its economy, is the extensive graduate school work being devoted to MNC research, conducted by such reputable graduate schools as Harvard, Columbia, Stanford and NYU. Not only do their findings tend to evidence the contrary, but as an alternative to constraining MNC activity, there is growing evidence that severe and perhaps irreparable damage to our national economy may result unless we remain deeply involved. Statistics in the aggregate, however, reveal little about the specific profiles of the individual members of the MNC community. One extended paragraph from A Biography Of The Watsons and IBM will help focus on the real MNC potential.<sup>4</sup>

The Company has become somewhat of a dynasty, in which the qualifications for citizenship were defined by one man and enforced by an ever changing hierarchy of subordinate executives, was ruled for more than forty years by a patriarchal boss. In 1968, IBM had one or more manufacturing plants and labs, often in addition to administration and sales operations in 13 countries outside of the U.S. U.S. Computer manufacturers installed 97% of the computers in Europe, a situation which appalls helpless Europeans when they think about it. IBM gets about 80% of the total business.<sup>5</sup>

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<sup>4</sup> William Rodgers, A Biography of the Watsons and IBM (New York: Stein and Day, Publishers, 1969, pp.9.) "In all the world, one corporation dominates the shape of the future. With installations and operations in 105 countries, it is a corporate network of awesome size, wealth and influence, whose products, management and services pervade and largely determine major qualitative and quantitative aspects of human life. Its activities cover much of the world's advanced technology in space, on earth, under the seas, and in thousands of industries, institutions and individual occupations. The corporation is Universal Business Machines, universally known as IBM, the world's largest non-union company, with a quarter of a million employees, more than half of whom are college graduates, with a current corporate stock value far in excess of all the gold ever hoarded in the underground vaults of Fort Knox, in the USA".

<sup>5</sup> Ibid., p. 231

In The American Take-over of Britain,<sup>6</sup> the authors report that more than a half-million British workers are employed by U.S. Companies and that in seven or eight years, American Companies will be producing more than twenty percent of all British goods.

Along with respect to the strategic control manifest in the ability of MNCs to close out or destroy even foreign combines not large enough to support the required size for economy of scale, is the fact that smaller nations need the computer technology if they are not to be relegated to lower levels in the development of their future technology.

While the Western-minded technological American tends to consider those odds in terms of control he can exercise over other nations, he ought to consider the possibility in reverse as other major industrial nations assume critical proprietorships in the U.S. It is a form of strategic pre-empting. As can be shown in the main arguments, the pre-empting of the development of a particular technology within another nation, is as critical to the national security aspect of a given nation as for that nation to out-distance the other nation in the development of a new critical technology. It is a temporarily redeeming fact, however, that many laboratories and major R&D, especially for the military, tends still substantially to reside in the U.S.

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<sup>6</sup> James McMillan and Bernard Harris, The American Take-over of Britain (New York, Hart Publishing Co., 1968).



The Evolution of the Multinational Corporation

Although much has been written about the awesome power of the corporation, perhaps none have merited the mantle of authoritarianism so extensively as the great early MNCs. Britain's East India Company, although an early archetype of the modern MNC, ruled a fifth of the world's population nearly two and a half centuries.<sup>7</sup> In the 1930's, United Fruit Company (now United Brands), commanded so enormous a presence in Latin America that it could topple governments, control 14 million acres of land from Cuba to Ecuador and earn the title, "el pulpo: (the octopus). While all this somehow seems a distant past, the more recently alleged episode of IT&T involvement in Chile, or the protest continued in The American Challenge<sup>8</sup> reveal at once the currency of the problem.

A glance at the following list<sup>9</sup> of the biggest MNCs will quietly dispel any notion of their relative unimportance to the economy.

<sup>7</sup> Newsweek, November 20, 1972, p. 96.

<sup>8</sup> Jean-Jacques Servan-Schreiber, The American Challenge (New York, Athenium, 1968).

<sup>9</sup> Newsweek, op.,cit.,

| Company           | Base                | World Sales* | Company               | Base        | World Sales* |
|-------------------|---------------------|--------------|-----------------------|-------------|--------------|
| General Motors    | U.S.                | \$26.3       | ITT                   | U.S.        | \$7.3        |
| Exxon             | U.S.                | 18.7         | Gulf Oil              | U.S.        | 5.9          |
| Ford Motor        | U.S.                | 16.4         | British Petroleum     | Britain     | 5.2          |
| Royal Dutch/Shell | Britain-Netherlands | 12.7         | Philips               | Netherlands | 5.2          |
| General Electric  | U.S.                | 9.4          | Volkswagen            | Germany     | 5.0          |
| IBM               | U.S.                | 8.3          | Westinghouse Electric | U.S.        | 4.6          |
| Mobil Oil         | U.S.                | 8.2          | Du Pont               | U.S.        | 3.8          |
| Chrysler          | U.S.                | 8.0          | Siemens               | Germany     | 3.8          |
| Texaco            | U.S.                | 7.5          | Imperial Chemical     | Britain     | 3.7          |
| Unilever          | Britain-Netherlands | 7.5          | RCA                   | U.S.        | 3.7          |

\*In billions

The best indication of growth trend lies in the total sales of MNCs, which has gone from \$200 billion in 1960 to \$450 billion a year in goods and services in 1972, over 15% of the Gross World Product.

Under constant attacks by critics such as former Charles DeGaulle, who saw a takeover of European industry, the Senator Church subcommittee investigation of "global" companies and countless alarmist authors and members of the media, anti-trust agencies are directing probes, often irrationally, into all aspects of the MNC operation. The entire phenomena poses a dilemma in that the obvious benefits of the MNCs in promoting and developing international trade and stimulating local economies, simultaneously attracts attacks seeking to destroy such a potential source of economic good. Jurisdictional questions appear to have no precedence and the MNCs, driven by the motivation of profits and sensing the vantage point of their ambivalent position, are displaying tireless initiative in the direction of further development.

It has been said that the principal line of battle being formed is between the awesome and beneficial economic power of the MNCs versus the politically inspired anxiety of nation states.

Many writers have seen the MNC as the greatest power for world peace and economic development, while others criticize it as another form of covert imperialism. Certainly none can deny that it is a carrier of advanced management sciences and technology, almost literally a channel for the global transmission of culture. By the very nature of its rationalization pattern, we are being moved by technology to a "standardized" world.

James Brian Quinn, writing in the Harvard Business Review<sup>10</sup>, drawing observations from a research project involving over 400 personal interviews with high level European and American MNC managers, regards it a fact that throughout many societies, the primary force needed to stimulate growth is not so much capital investment as technological advance. Accordingly, "knowledge flows" become the principle factor in strategic growth planning.

Quinn finds that today, a nation must develop, maintain and exploit technology from an international viewpoint. World wide science and technology commitment are now so great that no country, even the U.S. can internally develop ~~all the technology~~ it needs for all of its purposes. Some technologies, like microelectronics, computer, aircraft and aerospace technologies, may cost more to develop than the entire GNP of many nations. Once developed, a technology may require exploitation in many nations' markets to justify efficient plant sizes, marketing or transportation networks, or amortization costs.

It is significant to add that although the Keynesian investment "multiplier" is derived over a broad area of investment, the MNCs, the high technology firms, tend to deal with investment areas which appear to have infinitely higher multiplier effects.

A decision to commit the resources of a nation into a "wrong" given weapon or production system, can become a disaster, relative to a potential adversary, who, on the basis of greater experience or better processing of information input, has elected more wisely.

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<sup>10</sup> James Brian Quinn, "Technological Transfer by Multinational Corporations", Harvard Business Review, November-December, 1969.

At this point we may add another hypothesis: There is no absolute security. There is only time. It is an illusion to suppose that the unfolding of science under the impact of research, is the given gift of any particular group. Basically, it is now supportable to state that any condition resembling security, in effect, refers to a "lead time" along an axis, in which the variables of R & D expenditure, forces for rationalization, suppression of nationalistic ideology, quality of decision-making, technological state of the art, trained manpower and economic resources are of critical importance. To these we may add the quality of distribution and the maintenance systems. The ongoing margin of security over an adversary, in the final analysis, depends almost entirely upon the power of the system for detecting environmental clues for needed change and a "front-end" surveillance capability leading to a capacity for adjusting the system with sufficient speed to alter the outcome.

There can be no doubt that security "lead time", that factor based upon the chain of functions running from research and analysis, thru preliminary design to definition, can be affected by information "leaks". Generally, except where the preliminary aspect of research is still short of a breakthrough, such as was the case in atomic research between the U.S. and the USSR, this tends to be exaggerated in importance. First, a "leak" cannot be systematically planned for or scheduled. All "leaks" must be verified by subjecting them to extensive validity checks lest the leak be a deliberate "plant".

The very evolution of industrial society itself is perhaps the largest single obstacle to the maintenance of a security shield.<sup>11</sup>

<sup>11</sup> James Brian Quinn, op. cit.

Greater population densities and mobility of population lead to a greater anonymity and lessening of social controls. The conduits for the transmission of classified material have increased immensely through increased travel, student and technical exchange programs, world wide media, including reconnaissance satellites and perhaps most important, the movement to greater world economic integration, a movement in which the great MNCs are playing such a major role.

It must be of some comfort to the guardians of national security to consider that the policy control of foreign affiliates is exercised, first, through the use of annual budgets that specify planned targets to be attained, and second, through affiliate manager periodical reports of progress towards the specified goals.<sup>12</sup>

Quinn<sup>13</sup> sums up the case for the MNC growth:

"Other institutions such as joint technical venture, cooperative R & D programs and cross license enterprises, also transfer technology among nations, but the level of such activities are limited by comparison and their effectiveness diluted by multiple-leadership problems, communication difficulties and political interference and lack of common goals among participants. Increasingly, the raison d'etre for most MNCs is their superiority in science based on management technologies. MNCs can only penetrate the market of a producing area if they can do something better than the local inhabitants. But more and more, an MNC success depends on its superior management techniques, better product or manufacturing technology or operating economy of scale."

Quinn has found in his studies that non-royalty technology flows may dwarf those ordinarily included in "technological advance of payments".

It is evident from the evidence studied that the modern MNC is the most efficient organization yet devised for transfer of certain classes of technology internationally. The MNC is on a constant

<sup>12</sup> See George A. Steiner and Warren M. Cannon, Multinational Corporate Planning (New York, MacMillan, 1966).

<sup>13</sup> Quinn, op.cit., p.50.

search world-wide for markets and needs yet to be generated, while simultaneously conducting research, both home and abroad, for the optimal techniques by which to exploit the needs the needs being searched out.

Before passing on to examine the MNC in certain case situations, consider the problem of competition within a communist nation. We have already seen that Yugoslavia permits foreign investment up to 50% ownership. However, it is doubtful that even the huge national enterprises of Russia, with cartel-like strength, can compete internationally in the future unless its existing policies conform to the MNC mode, and there is growing evidence that this is occurring. In fact, it is precisely in this area of Russ accommodation that the student observer ought to maintain his lookout for signs of change.

Both with respect to the Western growth of MNCs and that if Russia's response, the role of international banking will be critical. No better authority to comment on this aspect is Robert Lutz, Sr. , executive of Credit Suisse <sup>14</sup>: "the banking business is now going through one of the most rapid periods of change in its long history." Lutz sees nothing less than a restructuring of international banking in the phenomenon, for which there is no historical parallel, of major banks forming groups to cooperate intensively across national boundaries. The chief cause of this change in international banking was a quantum leap in the financial requirements and geographic spread of the great multinational companies. The few hundred giants of world business are outgrowing the banking system that helped them become what they are. Not only do they expect the instant mobilization of

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<sup>14</sup> Robert Ball, "International Banking Gets The Team Spirit", Fortune: June 1972.

huge sums in a great variety of currencies; they also expect "one-stop" service in all their banking needs, from loans and issues to foreign exchange, and liquidity management, from comprehensive cash plans to advice on mergers and acquisitions.

### Coproduction and Codevelopment

Coproduction may be classified into two categories; coordinated and cooperative production. Coordinated production is an interchange of manufacturing technology in which the US, as developer of a weapons system, provides data, technology and other assistance to enable a foreign manufacturer to produce the system. In this case, there are no appropriated funds from the US. The second type, cooperative production, is a sharing of production of the weapons systems in which both the US and the foreign nation jointly participate in manufacturing of parts, the assembling of final product and the providing of funds and facilities to allow the program to be carried out.

The following example of cooperative production is accredited to Morris B. Callege, from a thesis written for the AF Institute of Technology, Wright-Patterson AFB, Ohio, entitled "Foreign Military Sales: U.S. Involvement in coproduction and trends toward codevelopment", August 1969, pp 46-179:

"The coproduction of the F-104 fighter in Japan gives some insight into the mechanics of the function in which technology (security) is transferred. While there was not the varied number of countries involved in manufacturing the F-104 in Japan as in Europe, there were several different foreign companies involved in the Japanese coproduction product.

The Japanese government began a series of studies in 1957 to find a successor to the F-86 Sabrejet fighter that was the first line of defense aircraft at that time. By 1958 it had narrowed its choice to the two American weapon systems, the Gruman F-11F and the Lockheed F-104. The F-104 was chosen as the weapon system to be Japan's first line defense fighter.

An important consideration in evaluating aircraft selection was that Japan's government wanted a military aircraft manufactured which would concurrently increase her capability to produce commercial aircraft(my underline).

Although not an immediate goal, development of such a capability was a definite future objective which probably influenced the ultimate choice of the U.S. manufacturer as much as the characteristics of the weapon system itself.

Mitsubishi Heavy Industries (MHI) was selected by the Japanese government as the prime F-104 contractor while Kawasaki was selected as the major airframe subcontractor. Ishikawa Jima Harima Heavy Industries was selected as the major engine manufacturer for the F-104.

On November 7, 1959, the governments of the US and Japan began negotiating the type of arrangements under which Japan would coproduce the F-104 aircraft. At the time of the negotiations, Lockheed and Mitsubishi were discussing financial arrangements, technical terms, purchase agreements and similar matters which would constitute the required industry-to-industry and licensing agreements.

Other US companies involved in manufacturing components for the F-104, were also negotiating arrangements with the applicable Japanese company which would be responsible for producing the items in Japan. In the aggregate, there were over 500 licensees and licensors involved in the Japanese F-104 coproduction program. Agreements covered such items as manufacturing rights, technical assistance, warranties, development of activities and technical data.

The US military motivation to have its weapons system accepted is to strengthen the orientation to the US. The industrial self-enhancement is attractive to the local country. They now have a 'piece of the action' and are strengthened by the arrangement.

Since both the Europeans and Japanese successfully manufactured the F-104 aircraft, it clearly indicates they did increase their industrial capability, thus developing the skill level and technological know how to manufacture modern aircraft. These countries, to a great degree, eliminated the deficiencies which existed at the end of World War II.

A fair evaluation must be that despite Japan's electronic and industrial base, coproductions, such as the F-104, contributed substantially to the technological base. To transfer technology is to transfer security. Not to transfer technology is to risk inevitable alienation and subsequent acquisition of the technology via another channel in any case. It depends upon the race being run.



It is obvious that the transfer of technology is a complex affair, regardless which conduit is utilized. The multinational corporation, by virtue of its very constitution, is most disposed to gamble with the idea of transferring technology. To the MNC, this is not a "zero-sum" game.

Attitudes:

Following the authorization of foreign military sales in the Mutual Defense Act of 1949, the US encountered little serious arms sales competition through the early 1960s. As the nations of the free world increase their technological industrialization, largely with US help and achieve more stable economics, the US is encountering more difficulty in negotiating coproduction programs. The international arms market is becoming more competitive. Other nations are beginning to manufacture weapons systems comparable to those designed and produced by the US. These conditions, coupled with the restrictions placed on the foreign military sales program by US national policy, are allowing other countries to make serious incursions into the US arms supply leadership. There can be little doubt that the trend in foreign military sales is toward this avenue of arms production. Hence, another thesis conclusion: The US has been losing and will continue to lose international arms contracts until it is prepared to compete with foreign firms on an equal basis in the area of coproduction and codevelopment. Coproduction development does increase the export of technology and this violates traditional U.S. security concepts which aims at keeping the technological base, especially the R&D, within the national boundaries. In consequence, foreign firms are forming consortiums, mergers and other agreements suitable to the acquisition of their own technology. A widely held view, especially by military producers and military sales personnel is that fewer restrictions should be imposed on U.S. agreements by the U.S. government, allowing industry greater freedom in seeking out and negotiating coproduction and codevelopment programs.

Military Involvement In the MNC Security Problem

Following the end of WWII and of threats to U.S. Security, congressional pressure and lack of public support for sustained military budgets led to a number of changes, which, though aimed primarily at alleviating the economic burden of armament, were nevertheless to contribute to the theoretical shortening of the national security "lead time" , as expressed in hypothetical terms earlier.

One particular pressure, developed in Congress, was to have the military programs in foreign aid move from outright transfer of equipment to grant in aid programs (repayable) and finally to outright foreign military sales. Title 22-F, Foreign Relations and Intercourse, par. 2761 p 5977, Subchapter II, spelled out the details for the President to act: "The President may sell defense articles from the stocks of the Department of Defense and defense services of the Department of Defense to any friendly country or international organization if such country or international organization agrees to pay not less than the value thereof in US dollars. Payment shall be made in advance , or as determined by the President to be in the best interest of the US, within a reasonable period, not to exceed one hundred and twenty days after the delivery of the defense article or the rendering of the defense service."

The success of the foreign military sales program was greater than originally predicted. By the year 1966, the annual sales reached \$1.9 billion . The push for these sales to reverse the flow of exchange is significant since for it to succeed, there had to be a relaxation of conditions otherwise imposed, by the Military Grant Programs. The merit of cooperative and coproduction will quickly be seen as a serious conduit for the outflow of security information. Perhaps we are hearing it again, loud and clear, "technology cannot be contained".

Of critical importance in the question of national security, is the technique of "coproduction" and "codevelopment (synonymous with cooperative development). If, as stated in the hypothesis, relative security depends upon relative technological bases (and some associated factors), then codevelopment and coproduction, must, of necessity, reduce our national security "lead time", on the basis of any rational analysis. Codevelopment, which may be considered an international sharing of research and development costs, if successful, may lead to even wider cooperative production.

### MNC Loyalties

In a recent issue of the ANNALS, published by the American Academy of Political and Social Sciences, Karl P. Sauvant provided a telling insight on the internationalization of MNC employees:<sup>16</sup>

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<sup>15</sup> The author of this paper recalls attending an American Ordnance Association meeting in Washington, in 1973, in which military officials of the R&D and the Military Sales activities were present. One could not help being aware of the pressure on all sides, military and civil, to remove obstacles that would impede military sales. Military sales had become an objective, not the "means to an end". It was now a reified force with its own existence and with personnel perhaps being rated or judged in terms of the dollar volume sold through this agency. This comment is less a criticism than an acknowledgement of the inexorable forces of rationalization underlying all technology once it becomes oriented to a goal concept. It would be naive, however, to overlook the advantage of supplying Iran, for example, with billions of dollars of military equipment as opposed to it being supplied by the USSR. A certain manifestation of morality, however, has tended to guide our Grant in Aid and Direct Sales, at least overtly, lest this nation become an active agent in promoting international strife. The Middle East situation attests to the delicacy of this problem.

<sup>16</sup> Karl P. Sauvant and B. Mennis, "Multinational Corporation Managers and the development of regional identification in Western Europe" The Annals, (American Academy of Political and Social Sciences) Sept. 1972, p 22.

"The increasing multinationality of corporations results in more managers having work responsibilities which are internationally oriented. This fact has important implications for regional integration because managers with international orientation versus domestic orientation, tend to believe that their well-being is highly dependent upon developments outside of their own country and that they stand to benefit from increased integration. This means, in turn, that they tend to be less nationally involved and also express favorable attitudes regarding economic integration in Western Europe..Such managers also disproportionately recommend integrative corporate policies for their company regarding personnel, marketing and financial questions."

Upon analysis , this ought to be seen as follows: The process of "tapping" or (coopting) the business community for high level government posts biases the structure of the decision making towards business, for government is not just conscripting the talents of the business man; it is buying his ideology, his values and his orientation towards the world.

From this we may conclude a certain mutuality with respect to security. The MNC can penetrate as deeply as it wishes into the local technology and derive information from its employees. It is also able to influence local policy by having produced an "international" citizen who will now exercise a similar set of values on his own government management. Basically, policy control of foreign affiliates tends to be exercised primarily through the use of annual budgets which specify planned targets to be attained and secondly, through affiliate manager's periodical reports of progress towards the specified goals. Recognizing the conflict of interest, L.B. Krause, Sr. Fellow at Brookings Institute simply states the alternative: "Countries must accept the risks of an international world, or give up its benefits."

John Fayerweather, Professor in the Graduate School of Business at NYU, who has focused much of his research into the multinational studies, testifies to a basic conflict between the MNC and the nation-state.<sup>17</sup>

"Economic optimization for the world as a whole calls for a high degree of specialization and allocation of activities according to location of resources, advantage of specialization, optimum scale of output and so forth. At every critical point every nation state finds that its objectives of national military security, domestic economic stability, protection of particular national gaps and even national pride become more important than potential economic increments from its participation in global economic optimization. Every nation, to feed its nationalism, seeks duplication of industrial and economic bases to sustain it."

This then is the basic arena of conflict....the special nationalistic, traditional, assumed self-interest of the nation-state versus the "internationalizing" drive of the multi-nationals. In a way of speaking, the consequence of acting against multinationals is to act against the freer flow of world trade, which is seen by most non-political thinkers, at least, as the essential pathway to a more mature economy and perhaps, through its movement, a greater interdependence, the very ingredient which could motivate a more durable peace. Japan offers a useful profile of a major industrial nation, destined to become a super-power (H. Kahn and other stage theorists) and yet almost wholly dependent upon the free access to world markets and resources. It is precisely the spirit of Japan which could become a legitimate bell-weather of a growing multinational mentality or "accommodation" among the nation-states of the world.

<sup>17</sup> John Fayerweather, "The Internationalization of Business" The Annals: The Multinational Corporation (American Academy of Political and Social Sciences, Sept. 1972 p 6.

The advantage of any single nation-state in constraining the activities of multinationals appears to be diminishing as more and more nations enter into the multi-national scheme itself. Subsidiaries of European and Japanese corporations overseas are now probably one-half as great as those of the United States, with an annual production of about eighty billion dollars annually. One need only to reflect on the names of Mitsui and Mitsubishi, in Japan, ICI and Dunlop in Britain, Renault in France, Volkswagen and Siemens in Germany and Olivetti and Pirelli in Italy. Their "participatory" investment is in sharp distinction to the "portfolio" investment of previous years.

Caryl Haskins, pursuing his research and development thesis,<sup>18</sup> sees an acceleration of this trend by noting the relative investment of the powers in R&D compared to their GNP. He cites Germany as a nation where nuclear power programs have now caught up with that of the U.S., and in some areas has surpassed it. The installed capacity of nuclear power stations is expected to be 2,300 megawatts by the end of 1972. This is scheduled to grow quickly to 12,000. The Merchant ship OTTO HAHN, designed especially for nuclear propulsion, is a pioneer among nuclear powered vessels in the world today (considerably in advance of the U.S.S. SAVANNAH.)

It is increasingly evident that in the great post-industrial societies under development, the primary economic asset for the coming decades will be knowledge; first supplementing and then perhaps even exceeding in importance, the simple and more obvious economic assets of the past. The knowledge of itself, however, according to our security

thesis is not sufficient. Historically, Europe possessed all of the

<sup>18</sup> Caryl P. Haskins, "Science and Policy for a New Decade" Foreign Affairs (Vol. 9 January 1971, pp 237-270).

scientific Nobel Prize winners, but the United States was far superior in the production of goods. It was the gift of technology, of rationalizing production, that led to U.S. eminence in productivity.

It is Haskin's belief that R&D policy has the greatest social multiplier effect over time of any policy we make as a society. Because R&D policy is the most future oriented policy of our society, one may assume further that this policy is more sensitive to new fundamental stresses on the society than any other of our policies.

The need to know, in a nuclear environment is evident. There is no room to bluff. The steps to escalation must be well known. Secrecy misplaced can become a deadly weapon against itself. Wars have been fought because of strategic miscalculations. It is increasingly the case that the potential enemy should know explicitly where the inviolate lines of defense are drawn and where negotiation is possible.

### Conclusion

With respect to the inevitability or evolutionary contention in the hypothetical scheme, Neil Jacoby<sup>19</sup>, distinguished academician at the Center for the Study of Democratic Institutions, lends studied support: "The multinational corporation has evolved in response to human needs for a global instrumental economic activity able to assemble resources and organize production on a worldwide scale. The multinational is, beyond doubt, the most powerful agency for regional and global economic unity that our century has produced. It is fundamentally an instrument of peace. Its interest is to emphasize the common goals of people, to reconcile or remove difference between.

<sup>19</sup> Neil H. Jacoby, "The Multinational Corporation", The Center Magazine, Vol. III No. 3 May 1970.

"It cannot thrive in a regime of international tension and conflict."

The evidence is overwhelming on every hand that if the ongoing development of the MNC is not "inevitable", it is occurring, nevertheless, at an accelerating rate. While it would be hard to deny that optimal development and standard of living throughout the world come about from any instrument that brings about or realizes the Law of Comparative Advantage, a pure form of the law can scarcely be realized. Aside from innumerable vested interests domestically, and quite apart from defense matters, economy of scale enters as a factor. That is, although some outputs can be more economically achieved elsewhere, benefitting from economy of scale, it is precisely the lack of volume in raw materials or market that would discourage the high powered development techniques of the MNCs, letting underdeveloped areas to flounder. Analysis of investment cycles will reveal this "3rd World" neglect quickly enough. The technological base for a "build-up" doesn't exist.

This thesis has focused on matters of strategic security in connection with national security, although the tactical and strategic categories are not always distinguishable. If the earlier hypothesis concerning national security, now measured solely in terms of "lead time" is valid, then in innumerable ways already shown, the United States, caught in the web of its own commitment to "industrial progress", will find it increasingly impossible to protect its technological flanks. Every technical sale, every codevelopment and every co-production, reenforced by a growing intelligence network (50,000 technical journals published in the U.S. alone) contributes towards this end.

The real danger to national security from MNC activity lies less in technical integration, on a global basis, than it does in maintaining the fiction that security is a matter that can be substantially maintained. Security is rationally comprised of concrete components,



nearly all susceptible to analysis. The major components are:  
The will to national defense that the leadership is able to inspire,  
the overall allocation of priority in budgetary spending, the  
allocation of R&D, the quality of decision-making, the managerial  
skills , both in industry and the using service and finally, the  
ability to train and maintain. The rest require no further elaboration.

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