THE INTERFACE BETWEEN THE MULTINATIONAL CORPORATION AND THE STATE WITH SPECIAL REFERENCE TO DEVELOPING COUNTRIES

by

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A thesis, submitted in partial fulfilment of the requirements for the degree of Master of Arts.

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January, 1975.

ABSTRACT

This study considers the role of multinational corporations and their impact on the development process of the developing countries, and consequently their implications for international relations. The purpose is to formulate some policy suggestions which may be taken into consideration when multinational corporations and governments are making policy decisions or negotiate agreements, and to consider recommendations for appropriate corporate, national and international action.

The study first provides some basic data on the size of multinational corporations in the world economy and thereafter assesses their dimension in the developing countries. The discussion on the concept of multinational corporation, the rise of multinationalism and the motives to multinationalize is follwed by a review of nationalism vis-a-vis the multinationals.

Management patterns and processes exhibited by multinational corporations are divided into 'world' and 'international division' categories and are examined with respect to the division of authority, extent and kind of ownership and record of performance. National, transnational and multinational elements in the industrial relations of multinational corporations are then considered.

The impact of multinational corporations on the economy of the developing countries is reviewed in terms of technological, economic, political, social and cultural effects: the results shade down this list from positive to less certain.

Conflict between multinational corporations and developing countries is looked at in the context of non-price dimensions in the viewpoints of host countries and investors. Suggestions are then made for minimising tensions that arise from such causes in cases where investment is made in raw material production, in import-replacing manufacturing, and in export-seeking manufacturing. Short-run security combined with long-run flexibility in arrangements between multinational enterprises and host governments is stressed as necessary in moving towards more tension-free international investment.

In the concluding part of the study suggestions for corporate (better public relations and information provision; provision of more opportunities for local nationals in employment; management and investment participation), national (support for trade harmonization and liberalization and a willingness to evolve policy on a reciprocal and consistent basis) and international (supranational incorporation; reciprocal incorporation or registration; agreed codes of trade, finance and laws) actions are presented followed by

observations concerning the future of the multinationals in the developing world.

ACKNOWLEDGEMENTS

This study was undertaken during the tenure of a Graduate Assistantship from the Economics Department of Lakehead University, Thunder Bay. Support was also provided through the auspices of Dean of Students, Mr. J. W. Kerr.

I am most grateful to Dr. C. A. Jecchinis, Professor and Chairman, Department of Economics, for his encouragement and suggestions in carrying out this study and in making his personal library available to me.

I am greatly indebted to Professor T. D. Harris, but for whose able guidance and expert supervision, this work would not have been completed.

My thanks are also due to the Staff of Lakehead University Library for their cooperation at every stage of my research work.

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I

INTRODUCTION: SCOPE OF STUDY

The emergence of the multinational corporation as a powerful agent of world social and economic change has been a signal development of the post war era. Government bodies are concerned with the rise of the multinational corporation, and some politicians see it as a threat to the nation-state. Already some people are asserting that not more than 300 multinational corporations will control 90 per cent of the world trade by the end of the century, while others contend that "over the next decade a few multinational corporations will, in the attitude of their management, cut loose even from one home nation and try to be rational on a global scale so as to maximize the long run welfare of the entire worldwide company."[1]

Conferences have been held, and many speeches given, discussing the future relationship between multinational corporations and the nation-state. It has been proposed that the development of the multinational corporation is the doom of the nation-state; others see it as a substitute

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[1]See Melville H. Watkins, Foreign Ownership and the Structure of Canadian Industry (Ottawa: Queen's Printer, 1968); Kari Levitt, Silent Surrender: The Multinational Corporation in Canada (New York: St. Martin's Press, 1970).

for colonialism or imperialism.[2] Still others say that the multinational corporation is not really a new phenomenon, and that it existed as early as the nineteenth century. Some assert multinational corporations are all big; others disagree. Some say that the majority of multinational corporations are United States-based; others assert that about half of them are European and Japanese.[3]

The multinational corporation is, among other things, a private "government", often richer in assets and more popular in stockholders and employees than are some of the national states in which it carries on its business. It is simultaneously a "citizen" of several nation-states, owing obedience to their laws and paying them taxes, yet having its own objectives and being responsive to a management located in a foreign nation. Small wonder that critics see in it an irresponsible instrument of private economic power or of economic "imperialism" by its home country. Others view it as an international carrier of advanced management science and technology, an agent for the global transmission of cultures, bringing closer the day when a

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[2] David Ruthenberg, Organisational Archetypes of a Multinational Company (Pittsburg: Carnegie-Mellon University Graduate School of Industrial Administration, Management Science Research Paper No. 114, August 1968).

[3] Kari Levitt, op. cit., passim.

common set of ideals will unite mankind.

What motives have thrust this corporate institution into a position of world prominence? How is it characteristically managed? What effects does it produce on investing and host nations, and on international relations and institutions? How can the policies of multinational companies and of the nations in which they operate minimize international conflicts and advance the cause of human welfare and world order? For what and for whose benefit does the multinational corporation exist? Are the costs (political, social, economic) borne by a country greater than the benefits it secures by admitting a multinational corporation? To whom is the corporation accountable? Is it a new entity or an old one in a new guise? How does the enterprise affect the sovereignty of a nation? What type of relationship will be durable between the multinational corporation and the governments of developing countries where the public sector has been assuming a predominant position? Important questions are also posed on a functional level: How does the multinationality of a company affect its management style? What implications does it have for extension of corporate policies and practices across national boundaries.

The multinational corporations have developed distinct advantages which can be put to the service of world development. Their ability to tap financial, physical and

human resources around the world and to combine them in economically feasible and commercially profitable activities, their capacity to develop new technology and skills and their productive and managerial ability to translate resources into specific outputs have proven to be outstanding. The importance of the foreign private investor to the development of developing countries was recognised in the International Development Strategy for the Second Development Decade unanimously adopted by the United Nation's General Assembly in 1970.

The important contribution that such firms can make to world welfare needs to be understood in the context of the objectives that they pursue. While their operations are often global, their interests are corporate. The developing countries need the financial, managerial and technical resources possessed by multinational corporations. Yet, the relationship between the two groups is characterised by increasing conflict.

The divergence in objectives between nation-states and multinational corporations, compounded by social and cultural factors, often creates tensions. Multinational corporations, through the variety of options available to them, can encroach at times upon national sovereignty by undermining the ability of nation-states to pursue their national and international objectives. Moreover, there are conflicts of interest regarding participation in decision-

making and the equitable division of benefits between multinational corporations and host as well as home countries. In recent years the situation has been sharpened on the one hand by changes in the internal socio-political conditions of many countries and on the other by shifts in bargaining positions. As a result, existing arrangements are frequently questioned and new ones sought. The dramatic growth of the public sector in developing countries has further caused new types of relationships -- a meaningful partnership of the government of the host country and the multinational corporation.

The issues in regard to multinational corporations are closely bound up with the international economic system. However sacred and inviolable national sovereignty may be from the political point of view, few national boundaries correspond to economic demarcation lines and few states are completely self-contained economic entities. Therefore, a practical economic solution is required in which the political entities, differing widely in endowment, can cooperate to reconcile their conflicting interests, harmonize their policies for their mutual benefits, and achieve a greater degree of international distributive justice.

There is, of course, no unique solution whereby the interests of all parties can be reconciled. Nor is there a ready means of attaining the accepted goal of greater distributive justice in the international context. Few can

doubt, however, that the issues raised by the multinational corporation have a direct bearing, for good or ill, on developing countries, and thereby on international relations and call for urgent attention. Some change in corporate policies and in the national policies of both home and host governments should be introduced to reflect the emergence of large public sectors in developing countries, and the need for some degree of accountability of multinational corporations to the international community.

The present study is an effort in this direction and some possible lines of action are proposed. Immediate steps can be taken in the short run where a consensus is found to exist, and at the same time a start can be made towards longer run measures that will demand further investigation and negotiation.

II

MULTINATIONAL CORPORATIONS IN THE WORLD ECONOMY

In the past quarter of a century the world has witnessed the dramatic development of the multinational corporation into a major phenomenon in international economic relations. Its size and geographical spread, the multiplicity of its activities, its command and generation of resources around the world rival in terms of scope and implications traditional economic exchanges among nations. Multinational corporations, which are depicted in some quarters as key instruments of maximizing world welfare, are seen in others as dangerous agents of imperialism.

The multinational corporations have developed distinct advantages which can be put to the service of world development. Their ability to tap financial resources, their capacity to develop new technology and skills, and their managerial ability have proven to be outstanding. At the same time, the power concentrated in their hands and their actual or potential use of it, their ability to shape demand patterns and to influence the policies of governments have raised concern about their role in world affairs.

Characteristics of Multinational Corporations in the World Economy

The term "multinational" signifies that the activities of the corporation or enterprise involve more than one nation. "A multinational company is any firm which performs its main operations, either manufacture or the provision of service, in at least two countries."[1] Certain minimum qualifying criteria are often used in respect of the type of activity or the importance of the foreign component in the total activity. The activity in question may refer to assets, sales, production, employment, or profits of foreign branches and affiliates. A foreign branch is a part of an enterprise that operates abroad. An affiliate is an enterprise under effective control by a parent company and may be either subsidiary or an associate.

Multinational corporations are responsible for most foreign direct investment. Nevertheless, a study of multinational corporations must be distinguished from the study of foreign direct investment because they concern a host of other activities also, such as the transfer of technology as well as goods, the provision of managerial services and entrepreneurship and related business practices.

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[1]Michael Z. Brooke, and H. Lee Remmers, The Strategy of Multinational Enterprise: Organisation and Finance (London: Harlow, Longmans, 1970), p. 5.

including cooperative arrangements, marketing restrictions and transfer pricing.

A central characteristic of multinational corporations is the predominance of large-size firms. Typically, the amount of annual sales runs into hundreds of millions of dollars. Each of the largest four[2] multinational corporations has a sales volume in excess of $10 billion (TABLE 1) and more than 200 multinational corporations have surpassed the one billion level. Closely related to their large size is the predominantly oligopolistic character of multinational corporations. Another characteristic of the very large multinational corporations is their tendency to have a sizeable cluster of foreign branches and affiliates. Moreover, most parent companies of multinational corporations are located in the developed countries.

The United States accounts for more than half of multinational corporations having total annual sales of manufactures of more than $1 billion, and also for more than half of the total estimated book value of investment, which by 1971 had reached approximately $160 billion. The United States, together with the United Kingdom, France and the

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[2](1) General Motors (U.S.A.)
(2) Standard Oil (N.J.) (U.S.A.)
(3) Ford Motors (U.S.A.)
(4) Royal Dutch/Shell Group (Neth.--U.K.).

TABLE 1*

Foreign content of operations and assets of manufacturing corporations of market economies with sales of over $10 billion, 1971.

Rank	Company	Nationality	Total Sales (Millions of Dollars)	Foreign Content as %					No. of subsidiary Countries
				Sales	Production	Assets	Earnings	Employment	
1.	General Motors	U.S.A.	28,264	19	--	15	19	27	21
2.	Standard Oil (N.J.)	U.S.A.	18,701	50	81	52	52	--	25
3.	Ford Motors	U.S.A.	16,433	26	36	40	24	48	30
4.	Royal Dutch/Shell Group	Neth.--U.K.	12,734	79	--	--	--	70	43

Derived from Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on the listing in Fortune, July and August, 1972.

*Source: United Nations, Department of Economic and Social Affairs, Multinational Corporations in World Development. ST/ECA/190. New York, 1973, p. 130.

Federal Republic of Germany, accounts for 80 per cent of foreign activities by multinational corporations, (TABLES 2 and 3).

Multinational corporations, especially those of Japan, the Federal Republic of Germany, and the United States, have grown dramatically in the last two decades, reflecting rapid post-war economic growth, technological advances, the intensified search for sources of raw materials and market outlets, and shifts in the relative economic power of major industrial countries. Although during the 1930s multinational corporation activities grew faster in developed than in developing host countries, and the latter have received only about one third of the total estimated stock of foreign direct investment, (TABLE 3) the presence of foreign multinational corporations in developing countries is generally of greater relative significance because their economies together account for much less than half of the total of developed market economies.

The distribution of investment in developing countries still reflects historical ties, some of a formerly colonial nature. Among the developing countries, the western hemisphere has attracted an estimated 18 per cent of the total stock of foreign direct investment, Africa 6 per cent, and Asia and the Middle East 5 and 3 per cent respectively (TABLE 4). The distribution of affiliates (links) is roughly similar. The corporations of some of the smaller European countries with no colonial experience, such as Austria, Switzerland and the Scandinavian countries, have a limited

TABLE 2.

The 650 largest industrial corporations[a/] of the market economies, by country and by size (sales in millions of dollars), 1971

Country[b/]	Number of corporations with sales[c/] of					
	Over 10,000	5,000 - 10,000	1,000 - 4,999	500 - 999	300 - 499	Total
United States.........	3	9	115	115	116	358
Japan.................	-	-	16	31	27	74
United Kingdom.......	-	1	14	22	24	61
Federal Republic of Germany............	-	-	18	10	17	45
France...............	-	-	13	9	10	32
Canada...............	-	-	2	7	8	17
Sweden...............	-	-	2	6	5	13
Switzerland..........	-	-	4	2	2	8
Italy................	-	-	4	2	-	6
Netherlands..........	-	1	1	2	2	6
Belgium..............	-	-	1	2	2	5
Australia............	-	-	1	1	2	4
South Africa.........	-	-	-	1	2	3
Spain................	-	-	-	-	3	3
Argentina............	-	-	-	1	1	2
Austria..............	-	-	-	-	2	2
India................	-	-	-	1	1	2
Brazil...............	-	-	1	-	-	1
Luxembourg...........	-	-	1	-	-	1
Mexico...............	-	-	1	-	-	1
Netherlands Antilles.	-	-	-	1	-	1
Zaire................	-	-	-	-	1	1
Zambia...............	-	-	-	-	1	1
Netherlands-United Kingdom.....	1	1	-	-	-	2
United Kingdom-Italy.	-	-	1	-	-	1
TOTAL, number of corporations......	4	12	195	213	226	650
TOTAL, sales (millions of dollars).........	76,131	77,807	382,097	147,703	86,069	773,007

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on the listing in Fortune, July and August 1972, of the 500 largest industrial corporations in the United States and the 300 largest industrial corporations outside the United States.

a/ Almost all the corporations included are multinational, according to the definition adopted in the text.

b/ Countries are arranged in descending order of total number of corporation listed.

c/ Sales are based on figures adjusted by Fortune and are not necessarily identical with those reported by corporations.

Source: United Nations. Department of Economic and Social Affairs: Multinational Corporations in World Development. ST/ECA/190. New York. 1973. p. [illegible].

TABLE 3.

Market economies: stock of foreign direct investment (book value), 1967, 1971
(Millions of dollars and percentage)

Country[a]	1967		1971[b]	
	Millions of dollars	Percent-age share	Millions of dollars	Percent-age share
United States...............	59,486	55.0	86,001	52.0
United Kingdom..............	17,521	16.2	24,019	14.5
France......................	6,000	5.5	9,540	5.8
Federal Republic of Germany.	3,015	2.8	7,276	4.4
Switzerland.................	4,250[c]	3.9	6,760	4.1
Canada......................	3,728	3.4	5,930	3.6
Japan.......................	1,458	1.3	4,480[d]	2.7
Netherlands.................	2,250	2.1	3,580	2.2
Sweden[e]......................	1,514	1.4	3,450	2.1
Italy.......................	2,110[f]	1.9	3,350	2.0
Belgium.....................	2,040[f]	0.4	3,250	2.0
Australia...................	380[f]	1.9	610	0.4
Portugal....................	200[f]	0.2	320	0.2
Denmark.....................	190[f]	0.2	310	0.2
Norway......................	60[f]	0.0	90	0.0
Austria.....................	30[f]	0.0	40	0.0
Other[g]......................	4,000[g]	3.7	6,000	3.6
TOTAL	108,200	100.0	165,000	100.0

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on table 11; Organisation for Economic Co-operation and Development, Stock of Private Direct Investments by DAC Countries in Developing Countries, End 1967 (Paris, 1972); United States Department of Commerce, Survey of Current Business, various issues; Bundesministerium für Wirtschaft, Runderlass Aussenwirtschaft, various issues; Handelskammer Hamburg, Deutsche Direktinvestitionen im Ausland (1969); Bank of England, Quarterly Bulletin, various issues; Hans-Eckart Scharrer, ed., Förderung privater Direktinvestitionen (Hamburg, 1972); Toyo Keizai, Statistics Monthly, vol. 32, June 1972; Canadian Department of Industry, Trade and Commerce, "Direct investment abroad by Canada, 1964-1967" (mimeo) (Ottawa, 1971); Skandinaviska Enskilda Banken, Quarterly Review, No. 2, 1972.

Source: United Nations. Department of Economic and Social Affairs: Multinational Corporations in World Development. ST/ECA/190. New York. 1973. p. 139.

TABLE 4.

Development Assistance Committee countries: estimated stock of foreign direct investment, by country of origin and region of investment, end 1967

(Millions of dollars and percentage)

Country of origin a/	World (total book value, b/ millions of dollars)	Total book value (millions of dollars)	Developing countries c/					
			Africa	Central America	South America	Middle East	Asia	Total developing
			(percentage share)					
United States..	59,486	16,703	2.3	7.4	12.4	3.0	3.0	28.1
United Kingdom.	17,521	6,582	11.3	4.7	5.0	4.8	11.8	37.6
France.........	6,000	2,689	28.8	1.0	6.8	2.7	5.5	44.8
Netherlands....	2,250	1,694	14.4	8.2	33.6	7.7	11.4	75.3
Canada.........	3,728	1,453	1.5	13.3	22.7	0.2	1.3	39.0
Federal Republic of Germany....	3,015	1,018	4.6	3.4	22.8	0.8	2.2	33.8
Japan..........	1,458	700	0.9	6.9	20.9	5.8	13.5	48.0
Italy..........	2,110	696	11.7	1.0	17.6	1.2	1.4	33.0
Belgium........	2,040	613	23.6	-	5.5	0.1	0.8	30.0
Switzerland....	4,250	565	1.4	3.4	6.7	0.1	1.7	13.3
Sweden.........	1,514	180	5.3	0.8	4.6	-	1.2	11.9
Australia......	380	100	-	-	-	-	26.3	26.3
Portugal.......	200	99	...	...	3.0	...	...	49.5
Denmark........	190	29	8.7	1.5	1.2	1.0	2.7	15.3
Norway.........	60	9	5.0	-	10.0	-	-	15.0
Austria........	30	5	-	-	16.7	-	-	16.7
TOTAL, DAC countries	104,232	33,135	6.3	6.1	11.6	3.0	4.8	31.8

Source: Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat, based on table 5 and Organisation for Economic Co-operation and Development, Stock of Private Direct Investments by DAC Countries in Developing Countries, end 1967 (Paris, 1972).

a/ Countries are arranged in descending order of value of total investment stock in developing countries.

b/ Not including centrally planned economies; see also table 5.

c/ Countries included in developing regions, throughout tables, based on OECD figures, are listed in table 35.

Source: United Nations. Department of Economic and Social Affairs: Multinational Corporations in World Development, ST/ECA/190. New York. 1973. p. 148.

spread in the developing world. The developing countries' share in the number of the affiliates as well as the estimated stock of investment is relatively high for Portugal, France, the United Kingdom, Italy, Belgium and the Netherlands. Hence the importance of former colonial ties. Thus, two-thirds of the French and Belgium affiliates in developing countries are in Africa, most of them in French speaking countries.

The more balanced distribution of the network of affiliates and stock of investment of the United Kingdom parallels to a large extent the geographical spread of the commonwealth. One-third of the United Kingdom affiliates, for instance, are in developing countries, 40 per cent of them in Africa and 32 per cent in Asia. The Japanese presence in the developing countries is also pronounced. Sixty per cent of affiliates and investment stock is located in these countries, with a strong concentration in Central and South America and Asia. Central and South America is also the preferred region for affiliates as well as book value of investment in the case of the Federal Republic of Germany. Canada, in particular, and Switzerland also, shows a high concentration in the developing countries of the Western hemisphere, while the Australian presence is felt almost exclusively in Asia.

A little more than one-quarter of the United States affiliates and of the stock of direct investment is located

in developing countries. Central and South America account for about 70 per cent of the number of United States affiliates and of the book value of investment in developing countries. The rest is more or less equally distributed among Asia, Africa and the Middle East.

Dimensions of Multinational Corporate Activity in Developing Countries[3]

In 1968 developing countries accounted for about one-third of the value of foreign direct investment as opposed to only one-sixth of world gross domestic product and one-fifth of world exports, excluding centrally planned economies. Half of the foreign direct investment in developing countries was in the development of natural resources, a little less than one-third in manufacturing and the rest in trade, public utilities, transport, banking, tourism and other services.

The relative importance of the multinational corporation in developing countries is rising in the manufacturing and services sectors and declining in the primary industries. On balance, the over-all importance of the multinational corporation is growing. As a source of the net flow of resources to developing countries, private direct investment flows from such corporations represented

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[3]Source: United Nations: Multinational Corporations in World Economy, New York, 1973. The following is based on the source indicated for TABLE I.

about one-fifth of the total in the 1960s. During the same period, this flow increased at an average annual rate of 9 per cent. In 6 out of the 12 developing countries for which data were available, the stock of foreign direct investment increased faster than that of gross domestic product. In the second half of the 1960s, the slow growth of investment in some countries is attributable to the liquidation of foreign investment through nationalization.

The relative size of the accumulated stock varies by industrial sector and country, and the share of foreign affiliates' activity in output, employment or exports varies accordingly. In some countries, the foreign content of the local economy is very high and at times concentrated in one sector, while in others it is less significant or more diversified.

In the Middle East, which accounts for 9.4 per cent of the total foreign private investment in developing countries, petroleum accounts for approximately 90 per cent of the total stock of foreign investment.[4] In South America (36 per cent of the total), on the other hand, 39 per cent of foreign investment is in manufacturing, 28 per cent in

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[4] O.E.C.D. Stock of Private Direct Investments by DAC Countries in Developing Countries, end 1967 (Paris O.E.C.D. 1972).

petroleum and 10 per cent in public utilities. In Africa (20 per cent of the total), 39 per cent is in petroleum, 20 per cent in mining and smelting and 19 per cent in manufacturing. In Asia (15 per cent), manufacturing has attracted 30 per cent, petroleum 22 per cent and agriculture 18 per cent of the total foreign investment stock. In Central America (19 per cent), manufacturing has attracted 31 per cent, petroleum 16 and trade 13 per cent of the total.

This aggregate picture, however, does not reveal the fact that multinational corporations have tended to concentrate in a few developing countries. Only a few developing countries have a stock of direct investment of more than $1 billion. Thus, Argentina, Brazil, India, Mexico, Nigeria, Venezuela and certain Carribbean islands,[5] account for 43 per cent of the total stock of investment in developing countries. According to O.C.E.D. estimates for the end of 1967, in another 13 countries[6] in various developing regions the stock of investment was between $500 million and $1 billion, accounting for nearly 30 per cent of the total stock of investment in developing countries. This concentration is related to the sector in which foreign investment is predominant. In African countries and in Central and South

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[5]Leeward Islands, Windward Islands, Bahamas, Barbados and Bermuda.

[6]Algeria, Libya, Jamaica, Panama, Trinidad, and Tobago, Chile, Colombia, Peru, Iran, Kuwait, Saudi Arabia, Malaysia and the Philippines.

American and Middle Eastern countries (Algeria, Libya, Nigeria, Zambia, Jamaica, Netherlands, Antilles, Trinidad and Tobago, Peru and Venezuela, Iran, Kuwait and Saudi Arabia), it is the extractive industries which predominate. In all these countries, the stock of investment in either petroleum or mining exceeds $200 million. In several other countries, manufacturing is the predominant sector, more than $200 million being invested in manufacturing in Argentina, Brazil, India, Mexico and the Phillipines. In India and Malaysia, investment in agriculture exceeds $200 million.

The activities of the United States multinational corporations represent half of the total stock of foreign direct investment in developing countries. In certain regions, however, such as Central and South America, the United States accounts for almost two-thirds of the total stock of foreign direct investment. The rest of the stock is represented by the United Kingdom (9 per cent), Canada (7 per cent), Netherlands (5 per cent) and the Federal Republic of Germany. In Africa, on the other hand, the United States accounts only for one-fifth of the total stock; the United Kingdom predominates with 30 per cent, France following with 26 per cent. Belgium, the Netherlands and Italy account for 7, 5 and 4 per cent respectively. In the Middle East, the United States accounts for 57 per cent, the United Kingdom for 27 per cent and the Netherlands and France for approximately 5.5 per cent each. In Asia, the United Kingdom has the largest share (41

per cent), the United States follows with 36 per cent, France with 7 per cent and the Netherlands with 5 per cent.

In some developing countries where the stock of investment exceeds $500 million, the foreign affiliates of a single developed market economy account for more than 80 per cent of the stock of total investment.[7] Data on the share of foreign multinational corporations in local production is limited. In Singapore, in 1966 affiliates from the main investing countries are estimated to have contributed one-third of the total value added in manufacturing.[8] It has been estimated that in the mid-1960s, sales of United States enterprises alone represented 17 per cent of the gross value of industrial production of Mexico, 13 per cent of that of the Philippines and 11 per cent of that of Argentina and Brazil.[9] In Central America, the output of foreign affiliates is estimated at 30 per cent of the output of the manufacturing sector. Among the 500 largest manufacturing firms in Brazil, foreign affiliates controlled 37 per cent of total assets.

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[7]In 1968, in Chile, Colombia, Panama, Peru, Philippines and Saudi Arabia more than 80 per cent of the stock of foreign investment was owned by United States affiliates. In Zaire, 80 per cent of total investment was made by Belgian affiliates.

[8]H. Hughes and You Poh Seng, eds., Foreign Investment and Industrialization in Singapore, (Canberra, Australian National University Press, 1969).

[9]Economic Commission for Latin America, Economic Survey of Latin America (United Nations Publications, Sales No. E. 72.II:G.1), p. 293.

In addition to their dominant role in the export of products of the extractive industries, multinational corporations are in general playing an increasingly important part in the export of manufactures from developing countries.

Despite their presence in key sectors, the contribution of foreign affiliates to the total gross domestic product of developing countries remains relatively small in most host countries. This is because the bulk of the gross domestic product of most developing countries originates in agriculture and the service industries where, on the whole, the presence of the multinational corporation is relatively limited.

Problems and Benefits of Multinational Corporations

The multinational corporation is one of the main actors in contemporary international relations. Although its interests and objectives usually transcend those of home and host countries, it can in turn be affected by intergovernmental relations and it may even be used by some governments as an instrument of foreign policy. Its power and spread allow it to influence, directly or indirectly, the policies and actions of home and host countries and at times to contribute to placing countries in interdependent

or dependent positions. Multinational corporations, to some degree, can cause jurisdictional disputes among governments and sometimes, when they succeed in drawing their home countries into their own disputes with host countries, political confrontations.

Relationships between multinational corporations and nation-states can produce tensions and conflict. Divergencies in objectives and scope of operations are exacerbated by differences in power. Traditionally, host countries, and recently some home countries also, have found that the global context in which corporations operate and the many options open to them can restrict the effectiveness of government policies.

In spite of reservations, the majority of host countries have, on the whole, encouraged foreign direct investment, usually attempting to obtain a tacit "trade-off" between the political, economic and socio-cultural costs and benefits.

To many host countries -- especially developing -- the location of decision-making centers outside their borders suggests that the multinational corporations may foster a pattern of international division of labour which perpetuates politico-economic _dependecia_. A number of host developed countries also see the increased presence of multinational corporations in key sectors as an encroachment on their independence.

Impact

The impact of multinational corporations thus raises questions ranging from permanent sovereignty over resources to possible conflicts with national priorities and distortion of consumption patterns and of income distribution. The evaluation of the economic costs and benefits of multinational corporations raises many methodological problems, and conclusions often depend on the assumptions made regarding alternative ways of action. The impact on employment in developing countries, for instance, appears to be generally positive though modest in the context of the total economy. The balance of payments effect, on the other hand, hinges on many factors, including the sector, area and period in the life of the investment.

Technology and skills are some of the major elements in the direct investment package. The multinational corporation is the primary supplier of technology either through direct investment or in other ways. One of the main advantages of the multinational corporation in this field is its ability to develop into commercially viable products and processes technological knowledge often generated elsewhere, in particular in government-financed research. The concentration of research and development activity in the home countries of relatively few firms contributes to the technological dependence in which host countries and especially developing countries find themselves.

Royalty payments do not fully reflect this technological dependence, in view of the multinational corporation's ability to maintain its monopolistic and oligopolistic position through a variety of practices, such as transfer pricing. The appropriateness of technology and the possibility of obtaining it through alternative means have become an increasing concern of host developing countries.

The economic impact is only one aspect of the effect of multinational corporations. The reaction of governments or social groups towards them must also be seen in the social and cultural context. The perceived threat to the country's traditions and heritage often affronts the nationalistic or reformist forces of the host country.

Tensions

Tensions have also arisen between multinational corporations and home countries. In the United States, the effect of multinational corporations on employment and the balance of payments is a matter of concern to organized labour, while other groups are scrutinizing the effect on international relations. The multinational corporation has also been singled out as affecting monetary, fiscal and trade policies.

At the international level, the operations of multinational corporations have an important bearing on the functioning of the entire international monetary and trade

system, both in the short and the long run. The recent currency crises have focussed attention on "hot money" movements. Although such movements have been more a symptom of fundamental defects in the system than a basic cause, any reform of the monetary system will have to consider possible scrutiny of short-term capital movements as well as compensatory arrangements.

The implications of the multinational corporations for the international trade regime are equally wide. In the general framework of decisions on the location of world-wide activities, capital flows may be partially substitutable for trade flows. Furthermore, the predominance of intra-corporation transactions in trade may render adjustment mechanisms less sensitive and limit free market operations.

At the international level, multinational corporations are also connected with the main jurisdictional issues arising in connection with the implications of nationalization and "extra-territoriality"; taxation of multinational corporations creates many difficult problems. Inter-company differences in tax rates, definitions of taxable income and taxation principles regarding income accruing abroad are compounded by transfer pricing practices which affect income location, and different schemes of compensation for taxes paid abroad practiced by governments. While bilateral tax treaties, mainly among developed market economies, have provided

a partial solution in their case, alternatives need to be explored, especially in respect of the developing countries.

Recent Trends

Among the most evident trends affecting the operations of multinational corporations has been a number of recent cases of nationalization and expropriation. Across-the-board measures affecting both domestic and foreign firms are almost as common as those concentrating on foreign firms.

When measures have been specially aimed at multinational corporations, there has usually been a high degree of selectivity. In many countries, developing as well as developed, a substantial sector has been reserved for nationals only. In addition to certain sectors, such as defence, in which most governments prohibit foreign ownership, a number of industries, such as transport, communications, banking and insurance, have increasingly come to be reserved for national ownership. This has been reflected in the declining share of activities of multinational corporations in these areas in many countries.

Similarly, although industries such as aeronautics, the automotive industry, electronics, computers and oil are not explicitly reserved to nationals, foreign intrusion has been vigorously resisted by informal and *ad hoc* government intervention.

Another significant recent development is the attempt by host countries to gain participation in or control of multinational corporations in their territories. In the countries belonging to (O.P.E.C.) the Organisation of Petroleum Exporting Countries, a phased increase in participation will mean complete fade-out within a decade. Indeed, because of the very strong financial position of some of the O.P.E.C. countries, proposals have been made for participation in multinational corporations in the home countries as well.

In a number of countries there has been a move to establish some form of machinery for screening foreign investment. In Canada, for example, following a series of investigations, the Foreign Investment Review Act was proclaimed in December, 1973. In Australia, active consideration is being given to machinery for the regulation of foreign investment as well as taxes on it, in addition to numerous measures already introduced, such as curbs on exports of minerals and surveillance of intra-company accounts. In Mexico and India, new foreign investment laws introduced recently require foreign investment to be registered with the appropriate authority in each country.

A major exception to this trend is Japan where, traditionally, the activities of foreign multinational corporations have been strictly limited. It was not until 1973 that measures for the significant and progressive liberalization were instituted in a negotiated package for correcting huge

balance of payments surpluses and partly as a reflection of growing confidence in the competitiveness of domestic industries. At the same time, case by case screening of foreign investment has been retained for primary industry, oil, leather and leather products, and retail trade.

At the regional level, the most far-reaching measures are those that have been adopted by the Andean Group.[10] A set of procedures and guidelines has been decided upon with respect to foreign investment and the transfer of technology. Moreover, current investors are required to sell majority holdings to local investors, and new investors from outside the region must take minority positions, within a period of 15 to 20 years, in order to be eligible for Andean Pact Trade concessions. Several economic sectors are closed to direct foreign investment, and foreign investors in these sectors have been given three years to divest themselves of 80% of ownership.

In the European Community, a major recent development affecting multinational corporations concerns the rules of competition. A recent ruling by the European court makes many restrictive agreements entered into by multinational corporations of doubtful validity, even in those countries where the multinational corporations involved are registered.

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[10]Bolivia, Chile, Colombia, Ecuador, Peru, Venezuela.

The expansion of the European Community from six to nine members has introduced further uncertainty as to the continuation of past practices. Another related development has been the effort to gradually harmonize direct taxation.

In home countries too, there has been a tendency towards stricter scrutiny of the activities of multinational corporations. The numerous congressional investigations in the United States in recent years and the Foreign Trade and Investment Act of 1973 and the Trade Reform Act of 1973 are the most striking examples.

III

THE FIRM: FROM INDIVIDUAL UNIT TO MULTINATIONAL ENTERPRISE

A firm is an individual unit of organisation within an economic system in which commodities are produced or services provided. Its entrepreneur (owner and manager in its simplest form of individual proprietorship) decides how much of and how one or more commodities or services will be produced, and gains the profit or bears the loss which results from his decision.

The firm's primary objective is to maximise its profits or to minimise its losses at times when it cannot make profits. These need not be the firm's sole objectives, but they furnish a simple starting point for the theory of the firm.

In economic theory the firm is the unit of enterprise that attempts to realize profits through efficient combination of inputs (materials, labour, land, capital and knowledge), to produce products or services intermediate or final -- whose prices are determined in markets that are made up of various suppliers and demanders. Within an economy profits may vary between the different participants in any market, either indicating their special abilities, knowledge, location or market power. Higher profits in one sector will

tend to attract entrants into that sector in the absence of traditional, legal or technical barriers to entry.

If there is such entry, competition will force product prices down -- or input costs up -- and reduce profits to the level applying elsewhere. If there is no entry, the maintained high profits will usually result in the financial titles to the assets of the successful monopolists or near monopolists being bid up in the capital market so that holders of such financial assets find themselves paying prices for them that result in their receiving normal rates of return.

As firms grow, their markets will widen usually both with respect to the variety of goods and/or services they produce or sell and the geographical area in which they operate.

There is a natural progression to an international role on the part of many firms. Firms in developed economies may look for both raw materials and markets abroad. Firms in less developed countries (and this includes the earlier period of many presently developed countries' experience) may seek capital, financial and human, in order to continue or expand their domestic evolution as well as their own appearance on the world stage as a supplier of goods and services.

Once trade is found profitable to its participants, a further integration of economic activity becomes possible for the firm based in the developed country i.e., the firm from the "home country". It may decide on direct or indirect

investment in existing foreign firms, set up new firms with varying degrees of ownerships by the parent or engage in some form of joint activity with the government bodies of the host country.

Multinational Corporation Defined

A multinational corporation owns and manages businesses in two or more countries. It is an agency of direct, as opposed to portfolio, investment in foreign countries, holding and managing the underlying physical assets rather securities based upon those assets.

Almost every large enterprise has foreign involvements of some kind. Whatever its home, it will probably send agents to other countries, establish representative offices abroad, import foreign materials, export some products, license foreign firms to use its patents or know-how, employ foreign nationals, have foreign stockholders, borrow money from foreign bankers and may even have a foreigner on its board of directors. None of these circumstances, however, would make an enterprise "multinational" because none would require a substantial direct investment in foreign countries' assets nor entail a responsibility for managing organisations of people in alien societies. Only when an enterprise confronts the problems of designing, producing, marketing and financing its products within foreign nations does it become a true multinational.

Although we define the multinational corporation by ownership and management of businesses in several nations, in reality this is generally only one stage in a process of multinationalization. Characteristically, the expanding corporation traverses the following stages:

1. Exports its products to foreign countries.
2. Establishes sales organisations abroad.
3. Licenses use of its patents and know-how to foreign firms that make and sell its products.
4. Establishes foreign manufacturing facilities.
5. Multinationalizes management from top to bottom.
6. Multinationalizes ownership of corporate stock.

Upward of one hundred thousand U.S. business enterprises are stage one exporters; many fewer have reached stages two or three; only about forty-five hundred firms are stage four multinationals. A mere handful of giant firms are approaching stages five and six.

Legally, a domestic corporation may multinationalize by establishing foreign branches, or by entering into joint ventures with enterprises in other countries. Whatever the legal format, it becomes a corporate citizen within many nations. This makes the word "multinational" accurately descriptive of its character. Although business transactions are typically transnational or international in nature, no company is international in a legal sense, because it must obtain its charter from a national government.

Rise of Corporate Multinationalism

Multinational operations by private business corporations are comparatively recent in man's history. The companies of merchant traders of medieval Venice and the great English, Dutch, and French trading companies of the seventeenth and eighteenth centuries were forerunners but not true prototypes of today's multinational corporation. They were essentially trading rather than manufacturing organisations, with comparatively little fixed investment. And they operated mainly within the colonial territories or spheres of influence of their own nations rather than under the jurisdiction of foreign sovereign states.

During the nineteenth century, foreign investment flowed extensively from western Europe to the underdeveloped areas of Asia, Africa, and the Americas, including the United States. In this age of empire-building, Victorian Britain was the great capital exporter, followed by France, the Netherlands, and Germany. Little of this capital flow was direct investment outside imperial boundaries. British firms made large investments in India, Canada, Australia, and South Africa, French companies deployed capital in Indochina, Algeria, and other French colonies, and Dutch firms helped to industrialize the East Indies: corporate investment was conducted mainly within the matrix of empire.

When British and European capitalists helped to

finance the railroads and canals of the United States, Argentina, and other countries outside of their imperial jurisdiction, they did it by purchasing the securities of the American governments or corporations. Rare was the profit-seeking business corporation that ventured outside the imperial realm to make commitments in brick and mortar under an alien regime. Nevertheless, by the turn of this century American firms were producing in Britain such products as farm equipment, sewing machines, printing presses, and revolvers, and a book entitled The American Invasion was published in London in 1902.[1]

The earliest substantial multinational corporate investment came in the mining and petroleum industries during the initial years of the twentieth century. Nature decreed a wide geographical separation of great mineral deposits in less developed regions from important markets in the United States and western Europe. Hence large oil companies like British Petroleum and Standard Oil company were among the first true multinationals, and hard-mineral corporations, such as International Nickel, Anaconda Copper, and Kennecott Copper, were other early entrants. Singer, Coca-cola, and Woolworth were early American manufacturing and merchandising

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[1]F. A. McKenzie, The American Invasion (London: Grant Richards, 1902). The "Invasion" was primarily of American imports rather than of American products made in Britain.

multinationals; Unilever, Philips, and Imperial Chemicals entered the foreign arena from Britain and the Netherlands. Chemical and drug companies went abroad from Germany.

Multinational corporate investment spread further in the years after World War I, spurred by rising barriers to international trade, and led by the burgeoning automobile and associated industries. General Motors and Ford acquired ownership of auto-making companies in Britain, France, and Germany. American companies making tires and rubber, plate glass, and auto accessories followed. By 1940, some six hundred American firms had invested more than half a billion dollars in factories in Britain.[2] The world-wide economic depression of the nineteen-thirties throttled this incipient movement, and foreign corporate investment languished until after World War II.

After the Second World War, the multinational corporation flowered as American firms heavily invested abroad in many industries. At the end of 1950, direct foreign investment by United States corporations was 11.8 billion dollars, mostly committed to the petroleum and mineral industries of Canada, Latin America, and the Middle East. By the end of 1960, the figure had almost sextupled to sixty-

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[2]John H. Dunning, American Investment in British Manufacturing Industry (London: Allen and Unwin, 1950).

five billion dollars. Paralleling this explosive growth were shifts in the location and industrial structure of the investment. Two-thirds of the total, 40.6 billion dollars, was invested in manufacturing, mercantile, and other non-extractive industries. Almost two-thirds, 39.1 billion dollars, was invested in Western Europe, even though commitments in other parts of the world had also expanded greatly.

American corporations are by no means the only multinationals. Direct foreign corporate investment in the United States stood at nearly eleven billion dollars at the end of 1968, having risen by 25% during the preceeding three years as more foreign businesses gained the financial means and the managerial confidence to enter the huge American market.[3] Most of this investment was made by enterprises of Britain, Canada, the Netherlands, and Switzerland with smaller sums from France, Germany, and Japan. Long used to the presence of such firms as Shell, Lever, and Bowater, Americans became conscious of new corporate citizens like British Petroleum, Courtaulds, Pechiney, Aluminium, Massey-Ferguson, Bayer, and Toyota.

Foreign direct investment was only one-seventh of the total foreign investment in the United States of seventy-six billion dollars at the end of 1960. In contrast, more than half of the total United States investment abroad,

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[3]U.S. Department of Commerce, Survey of Current Business (October, 1969), p. 35.

sixty-four billion of a total of a hundred and thirty-three billion, was direct in form.[4] Increasing European and Japanese business intrusion into the American continent demonstrates, nevertheless, that throughout the industrialized world, corporate business is outgrowing national boundaries. A nineteenth-century political organisation provides an archaic framework for a twentieth century economy.

American corporations led the world trend toward business multinationalism because the great size and wealth of the United States economy had enabled them to utilize enormous amounts of savings and because they were attracted by the relatively higher foreign rates of return to investment. United States capital outflow took the form of corporate direct investment because of the superior organisation of American capital markets and the larger capabilities of American managers. With its multitude of stockholders, its ready access to equity capital and credit from efficient financial markets, its experience in allocating capital and in coordinating business operations over a continental area, its growth-and-profit orientation, and its use of advanced techniques of management, the large American corporation was far better prepared for foreign investment than the typical European enterprise, with its much smaller size,

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[4] *Ibid*.

narrower market, emphasis upon security and stability, and traditional mode of management. Also, European capital markets were small and public ownership of corporate securities was limited, making it expensive for a European company to acquire external funds.

American corporate investment abroad is concentrated in the hands of the largest firms. Of a total investment of sixty-five billion dollars at the end of 1968, the five hundred largest American industrial corporations had invested more than fifty billion dollars. A score of these firms held one-third or more of their total assets in other countries; an even larger number derived more than one-third of their incomes from foreign operations. For the great majority, however, foreign operations constituted a minor segment of their businesses.

American corporate investment has penetrated deeply into the economies of a few advanced nations, such as Canada and Britain, and into those of certain raw material producing countries in Central and South America and the Middle East. Foreign firms -- primarily American -- owned thirty-five per cent of all Canadian mining, manufacturing, transportation, and merchandising business in 1967.[5] In Australia, foreign firms owned about one-quarter of all

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[5]Foreigners owned sixty-three percent of Canada's petroleum and mining industries. A. E. Safarian, Foreign Ownership of Canadian Industry (Toronto: McGraw-Hill, 1973).

business corporation assets in 1965.[6] They controlled about one-fourth of Brazil's rail and electrical industries and about eighteen per cent of its manufacturing.[7] British subsidiaries and joint ventures of American corporations accounted for 10% of Britain's exports in 1965.[8] The investment was concentrated in high technology industries (pharmaceuticals, computers) and in industries for whose products people spend a rising fraction of their incomes as their standard of living increases (automobiles, cosmetics, packaged foods). American companies also owned considerable parts of the industrial apparatus of Honduras, Chile, Panama, and the Arab oil countries.

In the European countries, American corporate investment forms less than 5% of total business investment. What concerns Europeans, however, is the deep penetration by American companies of the high technology sectors of their economies. In France, American firms controlled two-thirds of

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[6]D. J. Brash, American Investment in Australian Industry (Cambridge: Harvard U. P., 1966).

[7]Claude, McMillan, Jr. et al. International Enterprise in a Developing Economy (East Lansing: Michigan State University Press, 1964).

[8]John H. Dunning, The Role of American Investment in the British Economy (London: Political and Economic Planning Broadsheet 507, February, 1969), p. 119.

the photographic films, papers, farm machinery, and telecommunications industries. In Europe as a whole, they produced 80% of the computers, 95% of the integrated circuits, 55% of the semi-conductors and 15% of consumer electronic products.[9] Thoughtful Europeans have been haunted by the spectre of domination of their most advanced industries by American firms, relegating native enterprises to conventional tasks.

When taken globally, it has been estimated that the value of the output of all foreign affiliates of U. S. corporations was a staggering one hundred and thirty billion dollars during 1960.[10] This was four times the United States exports of thirty-three billion dollars in that year, showing that the preponderant linkage of the United States to other markets is foreign production rather than foreign trade. Foreign affiliates accounted for 15% of the total production of 900 billion dollars in the non-communist world outside the United States. Thus United States industry abroad had become the third largest economy of the world, outranked only by those of the domestic United States and the Soviet Union.

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[9] Jean-Jacques Servan-Schreiber, The American Challenge (New York: Atheneum, 1968).

[10] Judd Polk, The Internationalization of Production (New York: U. S. Council of the International Chamber of Commerce, Inc., May 7, 1969).

Moreover, foreign production of American firms has grown about 10% a year, twice as fast as that of domestic economies. Multinational corporations are rapidly increasing their shares of the world's business.

Motives to Multinationalize

The most frequent reason for direct foreign investment is that entrepreneurs confront foreign barriers to their exports. Nationalistic sentiment leads most nations to try to build their own internal capabilities. By raising barriers against imports of manufactured products, they induce foreign as well as domestic firms to establish domestic industries. Large numbers of American corporations became multinationals[11] simply in order to maintain or expand markets in the European Economic Community, in Canada and in many developing countries that could not be as profitably served by direct trade.

Business firms also multinationalize because their presence as a producer in a foreign nation enables them more efficiently to adapt their products to local demands. For example, during the 1920's General Motors acquired Vauxhall in Britain and Opel in Germany and opened assembly plants in

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[11]Most multinational enterprises are in the developed world and although there are international firms in developing countries, these are either agency operations or are quantitatively very small.

15 countries. It sought to meet consumer demand for automobiles in those countries that had expanded to a point where local manufacturing was more profitable than exporting from the United States.[12]

There were many other reasons for the relative attractiveness of direct investment in foreign nations. The creation of larger free-trading regions, such as the European Economic Community and the European Free Trade Association created opportunities to capitalize upon economies of scale that American firms were prepared to seize more quickly than their European counterparts. The rapid post war expansion of European markets, with a spreading wave of mass consumption, opened doors to profits from the introduction of mass manufacturing and mass merchandising methods. Another reason was that the dynamic of American business is expansion, and anti-trust laws and keen competition at home often channeled the attention of corporate executives to opportunities abroad.[13]

An important factor was the development of Management Science. Together with striking advances in communications and computer facilities, it made the management of distant operations feasible. Growing confidence in the political

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[12] cf. Frederic G. Donner, World-wide Industrial Enterprise (New York: McGraw-Hill, 1967).

[13] J. N. Behrman, Some Patterns in the Rise of the Multinational Enterprise (Chapel Hill: University of North Carolina, Graduate School of Business Research Paper 18, 1969), pp. 6-8.

stability of the developing countries and economic strength of the advanced nations appeared to reduce the risk of foreign commitments.

Also geographical diversification of a corporation's operations into many national markets offered a means of stabilizing the growth of total earnings and thereby reducing the risk/reward ratio.

By multinationalizing, a company also acquires certain competitive advantages. It can monitor technological developments in many countries. It can borrow at lower interest rates in one country to finance working capital shortages in a high-interest-rate country. It is able to adjust intra-company transfer prices in ways that reduce total corporate tax liabilities. It can move surplus funds between its multiple bases to minimize the cost of borrowed funds or to take advantage of predicted changes in the exchange rates of national currencies.

IV

THE STATE, NATIONALISM AND THE MULTI-NATIONAL FIRM

The State

Philosophers and political theorists have, since the invention of the written word, been discussing the characteristics, origins, purposes and evolution of "the state". One commentator has summarised four of those things that are distinguishable as having a claim to the name of "the state" as

a) legal entity and legal system ("the state as law");

b) laws of territory and citizenship ("the state as citizens);

c) the interaction of citizens (as 'the governed') with public offices and their holders (as 'the government') ("the state as 'apparatus'") and

d) the interaction of conflict and co-operation in the functioning of the 'apparatus' which evolves to a political system ("the state as policy").[1]

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[1] W. J. M. Mackenzie, Politics and Social Science (Harmondsworth; Penguin Books, 1967), p. 336 et. seq.

As a system the state is either one or other of the latter two definitions above or a blending of them: "a system of men, women and children, possessing the minimum common characteristic that they are by law members of one state."[2] Such systems include abilities to cope with informational deficiencies and to have adaptive capacities.

From an economic viewpoint, there is little dispute with the above as formal descriptive, convenient definitions of 'the state', but economists would tend to add various economic orientations such as territory being considered the natural endowment of each particular state, its citizens as that state's human capital, its operation in terms of its economic organisation for the determination of production, distribution and consumption amongst its citizens or within its territory or area of influence. Recently, there has been interest in the economic interaction of the main components groups in society from an economic point of view. Besides economic theories of production and consumption, there has been developing applications of conventional economic theories of the market to the behaviour of the bureaucrats and of the politicians in modern states.[3]

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[2] _Ibid_., p. 342.

[3] R. Bartlett. _Economic Foundations of Political Power_ (N.Y.: Free Press, 1973); A. Breton. _The Economic Theory of Representative Government_ (Chicago: Aldine, 1974) provide the most recent discussions.

Despite obvious inequalities and differences between states and national and international fictions about their characteristics, "sovereignty" of some kind is almost universally claimed by the administrations i.e. the political and legal institutions of nation states. Support, formal and informal, for the state itself from its citizens can be characterised as varying from apathy and indifference through loyalty and patriotism to fanaticism and chauvinism. Such differences in degree can all be contained in the concept of "nationalism." Legal sovereignty of the state maintained or supported by nationalistic attitudes or aspirations set the stage for potential difficulty with institutions that overarch geographically defined territories; these include the private international business enterprise that ranges from 'agency' or 'factor' mercantile activity to today's multinational corporation and international political-cum-economic bodies ranging from the United Nations and its agencies to supranational groupings in common markets, free trade areas, general or specific product trading blocs and common-culturally oriented international bodies.

Nationalism

Nationalism in new and developing states is a complex problem of increasing concern to both political scientists and economists. It is an extremely complex and sometimes

nebulous subject upon which one can find a number of erudite definitions.[4] A few keypoints common to these definitions are basic to this analysis. First, nationalism is descriptive of the commitment of the members of a nation to the principles of cohesion and adherence to the nation. Implied therein is the willingness of the individual to subordinate himself to some notion of national interest.

Second, there is always found some body of shared values, ideology and other attitudinal characteristics which may be considered either part of the nationalism of a country or so intimately associated with it that the two must be considered together. This body of shared attitudes provides to a substantial degree the cement which binds the people of a nation together.

Third, nationalism is a manifestation of the basic social tendency of individuals to group together for mutual security and support. This instinct found its earliest manifestation in the mating group and then the tribe and has expanded progressively into larger units including now the nation state. In this so-called "we-group" relationship the individual has a natural and satisfying inclination to identify with other members of the group and an instinct for differ-

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[4]Hans Kohn, The Idea of Nationalism, (London: Macmillan, 1944).

entiation and negative reaction towards the "they" external to the national group.

In any discussion of nationalism the interests of the nation and its components are ever present considerations. The word "interests" is used here to refer to the needs and desires which individuals or groups seek to satisfy including both ultimate objectives and the means which are sought for the achievement of those objectives. It is presumed that all interests involving human activity originate with the interests of individuals. However, in the nature of modern society a large portion of individual interests is sought through the activity of groups, composing what may be called collective interests (e.g. national efforts to provide mutual defence and law and order, to define and promote culture and identity and to promote economic growth). This process leads in turn to the emergence of group interests which may be distinguished from individual and collective interests. The group interests are distinct in their concern with the survival of the group or the strengthening of its capacity to function through the expansion of its power or some other means (e.g., the police powers of the government).

Thus, we may broadly distinguish three main types of interests:

1. The interests which the individual seeks independently;
2. The interests of the individual which are aggregated with

those of other individuals and sought collectively by a group; and

3. The interests of the group in advancing its organic capabilities.

These types of interests intermingle with nationalism in several ways.

First, nationalism is a vehicle for the achievement both of collective interests and of the interest of the nation as a distinctive group (categories # 2 and # 3 above). The collective individual interests lie in the satisfactions and security provided by participation in the group, the "we -- group" characteristic of nationalism. The group interests lie in the support of the members in various ways motivated by nationalism, which gives the nation the capacity to perpetuate itself as a group and to accomplish its objectives. The objectives themselves are often collective interests, but the power and continuity of the nation itself does not serve any particular individual; it represents a group interest.

Second, nationalism fills gaps in the national analysis of interests. Issues in which nationalism is a factor typically will involve consideration of a mixture of individual, collective, and group interests. With all of these and particularly the latter, there is a significant problem of perception and analysis for the participants. It is, for example, extremely difficult even for a well informed person to determine with certainty where the national interest lies on

a particular issue. Since most members of a country are relatively uninformed about a large number of public issues, their perception of interests is often incomplete and to varying degrees inaccurate. In such circumstances nationalistic attitudes provide an instinctive substitute for knowledge and thought. That is, the individual can often find among his collection of nationalistic feelings enough reactions, and biases, to fill the gaps in his competence to think out an issue. This factor is significant to the question of nationalism because it means that the influence of the generalized feelings associated with it is enhanced in proportion to the inadequacies of the perception of actual interest by the participants.

Third, nationalism plays a prominent part in the socio-political process by which individuals, subnational groups, and the nation seek to achieve their interests. A vital part of this process is the pattern of appeals for support by one component of the society to another and the decision by each group or individual as to what support should be given to others.

Several general characteristics are particularly meaningful in looking at the actual response by individuals and groups to nationalistic appeals.

One is the extent to which the support given identities with the appeal maker by virtue of common nationalism.

Presumably in a wide range of decisions, where other considerations are not of substantial weight, the presence of a sense of identification, in this instance through joint nationality, provides an adequate basis for rendering support. For example, in a large number of conflicts of American individuals or groups with foreigners the average United States citizen would doubtless express support for the American simply because of nationalistic feeling in the absence of significant knowledge or interest in the substance of the issue. In this case, the support is given as an instinctive response based upon a sense of solidarity as a member of a group.

A second source of favourable response lies in the explicit conclusion of the individual or group that the appeal is a valid component of the shared attitudes associated with nationalism. For example, some member of the national society may appeal to others for protection against an external challenge to one of the traditions of the society or one of its value standards (e.g., paternalistic job security traditions in Europe).

Third, there is the role of nationalism in social communications. At each stage in the communications process there are opportunities for selection, distortion, and interpretation. Nationalism influences what happens in this process. The news media provide the most conspicuous examples. Newsmen are subject to their own nationalistic feelings and

to those of their readers, to whom they cater to some degree. The emotional content of nationalism fits well with the tendency of media to emphasize the sensational aspects of the news. Thus, it is common to find that stories with a high nationalistic content receive considerable attention in newspapers and other media and that nationalistic elements receive greater attention than the rational analysis of the news.

Finally, the process of change must be considered; new conditions and requirements are constantly emerging which change both the various interests involved and the content of the shared attitudes associated with nationalism. Given the difficulties of perception and communication these changes are only integrated into the system slowly and with difficulty. To cite a notable case, in retrospect it seems apparent that the abandonment of overt military aggression as a means for achieving national goals was in the best national interest of Germany. Yet serious losses from two major wars were necessary to integrate this view into the national opinion. There is a dual learning process involved in this sort of change: first, that of acquiring adequate knowledge and perception of the changed circumstances and, second, the balancing of losses and benefits involved in any shift in views as to interests and shared attitudes.

Nationalism probably retards the learning process because of the inevitable rigidity or inertia associated with

widely held common viewpoints, particularly those which have strong emotional support. Thus, in any given circumstance, nationalistic views are likely to be found supporting the status quo. On the other hand, nationalism places in the hands of those who seek to change public opinion a potential means for expediting change by appealing to the emotions.

Interaction of the Multinational Firm and Nationalism

The foregoing comments provide a general scheme of analysis into which we may now inject the various ways in which the multinational firm interacts with host country nationalism. This analysis is pursued from two directions, the inputs of the multinational firm in the development of nationalism and the conflicts between the firm and nationalism.

The multinational corporations appear to contribute to the formation and character of nationalism in a country in three ways: First, they often play an indirect role by affecting the domestic socio-economic factors which contribute to the formation of nationalism. The ability and willingness of people to identify with the national group and provide support to it are affected importantly by such things as degree of literacy, distribution of income, and communications. Through their general influence on economic development and

their specific role in particular industries, multinational firms often provide a constructive influence in the direction though in some cases they undoubtedly retard the process as compared with what might take place in their absence.

Second, the existence of multinational firms as a problem confronting the nation provides a general encouragement in the direction of national unity. It is assumed here that nationalism came into being in part as a response to the emergence of problems with which the people cannot deal effectively either on an individual basis or through sub-national groups. While the importance of multinational firms as an overall national problem varies from region to region, evidence suggests that it is commonly quite significant. Its influence is most apparent in less developed countries, expressed, for example, in the prevalence of protest against "neo-economic colonialism". But it also seemed to be a factor even in industrialized areas like Canada. The popularity of Serven-Schreiber's <u>The American Challenge</u>[5] suggests that reaction against multinationalization of industry is a primary component in emerging Pan-European nationalism.

Thirdly, collectively and individually, multinational firms have in most countries provided some of the commonly shared attitudes which compose the content of

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[5] J. J. Serven-Schreiber, <u>The American Challenge</u> (New York, Atheneum, 1968).

nationalism. Indeed, in many less developed countries the anti-foreign business attitudes are among the few opinions which are almost universally held and which have strong emotional force.

As the second and third points are closely related, the distinction between them requires clarification. The second point is conceived as the response of the people of a nation to the multinational firm as an entity falling generally into the category of a "they", that is, as an outsider seeking to penetrate the "we-group" and thus generating instinctive cohesion to resist. This natural tendency to cohesive resistance is reinforced as specific points of conflict are recognised for which the value of the nation-state as a vehicle for pursuit of collective interests vis-a-vis the multinational firm is recognised (e.g., nego-tiating terms for new investments to optimize national interest benefits). The third point refers to specific facets of the reaction to the multinational firm, rather than reaction to it as an entity. The widespread sharing of these attitudes among the population provides specific bonds similar in their cohesive effect to shared cultural values.

A further element of this analysis is the process by which the nationalistic attitudes toward foreign companies come into being. To be shared throughout the population the

attitudes must have been formulated at certain points and communicated effectively on a broad scale. The process presumably involves many individual contacts together with a substantial amount of communication and activity by groups and leaders in a position to aggregate and disseminate attitudes on a subnational or national basis.

It is likely that the process involves also a substantial oscillation of communications between individual experiences and reinforcing communications from other sources. For example, an opinion that multinational firms are not respectful of national life may be the product of a number of individual experiences supported by views expressed by various national leaders. An individual might, for example, be personally affronted by an American supervisor; later he may read some comment in a newspaper about lack of respect shown by another company and a third unpleasant experience with an American tourist may add to these feelings. A speech by a politician attacking foreign enterprise might provide further reinforcement. By similar experiences multiplied many times throughout the population, one could visualize a given attitude evolving to broad acceptance.

Problem Areas

The problems of mulinational firms which involve host

country nationalism fall into three main groups, each of a quite different character: bias, conflicts with specific nationalistic attitudes, and national struggle issues.

Bias

The tendency of members of a group to be prejudiced in favour of the viewpoints of others in the group against outsiders is well known. The extent to which bias is troublesome for the multinational firm in a given case would appear to depend upon two factors. First there is the element of difficulty of determination of facts, issues, or other considerations in the case. Wherever there is an element of uncertainty between the position of the multinational firm and a host country national, nationalistic feeling will encourage co-nationals to accept the statements of the latter.

The second factor is the breadth of involvement of host nationals. When an issue is confined to a limited number of people with whom the multinational firm can communicate directly, it can present its side of the issue and respond directly to contrary viewpoints. However, as the number of people involved broadens, their information is received by them through indirect communication channels, notably news media. The limited amount of information which can be transmitted in this manner is inevitably subject to the bias of the media, and the multinational firm has limited

opportunity to counteract the bias.

These two factors are readily observed in cases where complex conflicts between the multinational company and a host of nations become subjects of wide national interest. The news media in these cases give considerable space to the conflicts, but the space is never enough for a full presentation of all the background and shading of viewpoints. To varying degrees the reporters and editors manifest their nationalistic bias by favouring the viewpoints of their co-nationals. Thus, the general populace is influenced not only by its own bias but also by the bias of the intermediary communications links, and in the appeal-support process the position of the nationals is weighted against that of the multinational firm.

Conflicts With Specific Nationalistic Attitudes

As noted, there already are a number of anti-foreign business opinions so widely held that they are part of the shared nationalistic attitudes of the populace. The more commonly observed reactions related to these attitudes involve quite tangible issues of national interest, but our primary concern here is with the attitudinal aspect. The national interest aspect is important, however, because it has often

been the source of the attitudes and continues to provide reinforcement for them.

1. Control: There is a common concern about the multinational firm as a threat to the control of the affairs of a society by its people. There is clearly substance to this feeling since, as noted earlier, the multinational firm, by definition, seeks a degree of control over activities within the host nation. The nationalistic attitude problem, however, is not concerned with whether or not there is loss of control but rather with the attitudes of the people toward the loss.

The basic nationalistic response is that any loss of control is undesirable. In reality, however, the subject is a very complex one, and it is often difficult to determine what is in the best interests of individual nationals and the host nation as a whole. On some points, like the retention of parent company quality control of pharmaceutical drug production, the loss seems clearly to the benefit of the host nation. But, most control questions are susceptible to considerable debate and the complexities of this analysis are clearly beyond the time and capacity of the people. Thus the basic negative reaction to loss of control commonly comes into play as a counter to control sought by the multinational firm.

Some reflections on history seem appropriate in considering this situation. Over the course of time individuals

and groups have progressively given up greater degrees of control over their affairs to other individuals and groups and to higher orders of grouping. The process is ever accompanied by hesitation, reluctance and worry. Only with the passage of time and the accumulation of experience are the benefits gained from giving up control assured and confidence in those to whom control has been transferred achieved. The evolution of nationalism is in itself part of this story, with the individual transferring control of much of his affairs to the nation-state and achieving confidence in its ability to protect his interests.

The multinational firm is a relatively new feature in this process of evolution. There are good indications that a nation may benefit substantially in economic terms by transferring some degree of control of its industry to management organisations of world-wide scope. However, countries are still at an early stage in ascertaining what the actual costs and benefits of this process may be, in determining the degrees of control to relinquish, and, in establishing the pattern of working relations to implement the process. Thinking along these lines is still rudimentary at government levels, and it is highly underdeveloped among the general population. In the meantime, the instinctive worries about loss of control to a foreign body deter the development of the confidence in the multinational firm which is required for the transition to progress.

As the nation-state is regarded generally as the highest acceptable level of control, the idea of the transfer of some degree of control to the multinational firm external to the nation-state is resisted by nationalistic sentiment. The question of control thus becomes a point at which the basic sentiments of nationalism are themselves threatened by the multinational firm. The worries are reinforced by the observation that the multinational firm has its roots within another nation so that its decisions are responsible to a group whose interests are different and often assumed to be competing with those of the host nation.

2. National Wealth: Host nationals commonly believe that multinational firms take more wealth out of a country than they contribute to it in the way of benefits. This view is strongest in the countries where extractive industries are dominated by foreign firms, the physical removal of natural resources being associated in people's minds with loss of national wealth. But it is also widely held in countries where manufacturing is the main activity of the multinational firms.[6]

Computing with any meaninful accurance a balance of costs and benefits from foreign investment is extremely

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[6]John Fayerweather, "Attitudes of British and French Elites Toward Foreign Companies," MSU Business Topics, Winter, 1972.

difficult. The only statistics which are typically considered are the balance of payments effects and even in those the assessment is usually limited to comparing inflow of capital against outflow of dividends without consideration of more complex questions such as import substitution, generation of exports, and the like.

3. Mutual Protection: The third attitude is the tendency of members of a nation to protect each other from outsiders. The multinational firm is often believed to take unfair advantage of the members of the host society. Substance for this belief is readily found in such features as the size of the firms and their technical superiority. There are often countervailing considerations such as the difficulties of the multinational firm in staffing and organising in a foreign environment and the unwillingness of local competitors to adopt methods which would put them more on a par with the foreign firms.

But these considerations do not go directly to the point of the attitudes which give emphasis to non-national loyalty rather than the logic of competitive rules and performance. Similar attitudes may be inspired in sympathy for the position of workers employed by multinational firms, suppliers, and other nationals with whom the foreign firms have relations.

4. Culture: Multinational firms are often viewed as a threat to the traditional culture of the host society. They often introduce ways of doing business in such matters as industrial relations, competitive practices and the like which conflict with the established cultural patterns. One frequently finds that the more progressive local companies are moving in similar directions. But so far as attitude formation is concerned the conspicuous identification of the multinational firm with different cultural characteristics readily creates an association in the public mind with threats to traditional ways. This sentiment is, of course, particularly significant in terms of nationalism because the traditional ways are in themselves a part of the basic nationalism. Thus the resistance along these lines as a nationalistic sentiment amounts in effect to the protection of nationalism itself.

5. Pride: Respect for the flag, national leaders and other symbols of nationalism are universal. Beyond these, national self-esteem may be bound up in such varied matters as scientific achievement, political institutions, and sports. The multinational firm is inevitably cast as a threat to national pride because its presence is based on some element of superior capability. Most commonly it possesses superior technical or managerial skills, a fact which reflects on the capabilities of the host society. This particular element

does not usually appear to be strongly offensive to the pride of the host nation, presumably because possession of such skills has never been a key element in national pride or the foreign superiority has been sufficiently accepted and adjusted to in the psychology of the people. Still, it is not unlikely that it creates a small sense of loss of national pride, and reinforces specific affronts due to other actions by foreign companies.

A conceptually significant point to make about all affronts to national pride is that the role of the multinational firm as an outsider is critical to the strength of the nationalistic reaction to them. A local national could do many of the same things with relative immunity. He might be criticized, but usually he would not be seen as showing disrespect to the nation. The same actions or words by an outsider are much more likely to trigger a defensive nationalistic feeling.

6. National Struggle Issues: The national struggle issues are directly related to the image of the multinational firm as a total entity confronting the national body -- the "they" versus "we" role. Most of the time the negative attitudes associated with this image seem to be quite diffused and dormant. In some cases and some countries, however, they play an important part in conflicts, chiefly where major investments in small countries are involved, e.g., United Fruit

Company in Central America and some of the extractive industry situations. In such instances, the impact of the foreign firm is great enough so that the host society is constantly aware of it as an overall threat to national integrity. Adverse reactions based on this feeling are readily aroused by specific events, the most dramatic being conflicts resulting in nationalisations.

But, this sort of feeling is evidently present to some degree in issues of more modest character, especially where the parent government of the multinational firm enters the picture. For example, it was a factor in a conflict between the Canadian government and the First National City Bank in 1965-67.[7] Politicians and the press on a number of occasions injected exhortations to the government not to "retreat" under U. S. "big business" and government pressure and other phrases with combat connotations. In its latter stages, the conflict had assumed very much the character of a battle in a form of economic warfare, with feelings generally similar to those aroused by military combat being stimulated by the Canadian press. The intensity of the feelings were, of course, of a lesser order than in military warfare, but the fact that they had this character was a signif-

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[7]John Fayerweather, "The Mercantile Bank Affair," Columbia Journal of World Business, November-December, 1971.

icant element in the conflict.

The role of the government of the parent company of the multinational firm adds a dilemma to this analysis. Except in the large company -- small country situations, people of the host country do not readily see a foreign company as a serious threat to the nation as a whole. Their broadest defensive nationalistic feelings are directed at foreign nation-states, usually some neighbours and certain major world powers, the former posing specific traditional threats and the latter menacing their overall independence. Among the latter are most of the parent governments of multinational firms, including notably the United States and to lesser degree the chief European countries and Japan.

V

MANAGEMENT PATTERNS AND PROCESSES OF MULTINATIONAL CORPORATIONS

A multinational business corporation may adopt one of two basic organisational forms: a world corporation format, in which the basic business functions of finance, marketing, manufacturing, and research and development are the primary pillars of organisation and domestic and foreign operations are merged; or an international division format, in which all foreign operations are separated from domestic in an "international division".[1]

There are strengths and weaknesses in each format, and both have been used by successful firms. As firms gain experience, a wider use of the world corporation plan of organisation is likely because it achieves more complete integration of foreign and domestic management.

In both types of multinational organisation, the head office normally makes strategic policy decisions, such as expansion of product lines or marketing territories or capital budgets, and delegates to the managers of its foreign

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[1]F. G. Donner, *op. cit.*

affiliates broad authority to operate under those policies within their respective countries. 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 managers' periodical reports of progress toward the specified goals.[2] Coordinated control of policy through central staff functions, and decentralized operating responsibility with clearly defined line authority -- the management technique developed within General Motors -- has been the key to successful multinational management.[3] Although companies differ in the extent of the authority they vest in the managers of their foreign affiliates, it is simply not feasible to handle a many based enterprise with a tight rein.

An important issue is the necessary or desirable extent of ownership of a foreign affiliate. Up to the present time, the predominant vehicle of direct corporate investment abroad appears to be the wholly owned subsidiary. Thus 77% of the net assets of American firms in the United Kingdom in 1965 were held by wholly owned subsidiaries, 14%

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[2] cf. George A. Steiner and Warren M. Cannon, Multinational Corporate Planning (New York: Macmillan, 1966).

[3] cf. Alfred P. Sloan, Jr., My Years With General Motors (New York: Duell, Solan & Pearce, 1963), chap. 4.

by subsidiaries more than 50% American-owned, and only 9% by entities financed mainly by British firms.[4] Most American and European companies believe that sole ownership is necessary to enable them to base their operations upon objective economic factors free from the influence of foreign partners.[5] Although hundred per cent ownership may facilitate the enforcement of corporate discipline and progress toward assigned goals, it goes against prevailing opinion in most host countries, which want a "piece of the action" for their own citizens.

Host countries prefer an equity interest by local businessmen because it reduces the danger of foreign control of their economies. In addition, local partners can help to improve the affiliate's relations with the foreign government and its people. The examples of Japan and Mexico, which have admitted foreign companies only as minority owners of joint ventures, demonstate that successful foreign investment does not require majority ownership. Although joint ventures are not free of difficulties, it is desirable -- and probable -- that more multinational business will assume this format in future, despite investors' preferences for

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[4]J. H. Dunning, op. cit., p. 126. See also J. C. Behrman, op. cit., pp. 58-60.

[5]F. G. Donner, op. cit., chap. 4.

one hundred per cent control. Another route to joint ownership, of course, is multinational ownership of stock in the parent company, which is also desirable to minimize international frictions.

Studies of comparative management in different countries indicate that the similarities are far greater than the differences. With appropriate adaptations to local conditions, American management technique has proved to be a hardy transplant in foreign soils. As David Lilienthal has poignantly observed, the most important managerial problems of multinational corporations are their relations with governments. The legal systems and social and economic controls of host countries often conflict with those of the home country. Intermediate negotiations with government officials is the lot of the foreign manager.[6]

Managers of the foreign affiliates of multinational companies once had the reputation of being "second-stringers", sidetracked from the main line of advancement to top management. This has changed, as companies have learned the folly of entrusting markets with high profit potentials to men of less than top flight abilities. A foreign assignment now is part of the grooming process of leadership of the

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[6]David Lilienthal, "The Multinational Corporation" in Anshen and Bach, eds. Management and Corporations (New York: McGraw-Hill, 1960), chap. 5.

multinational company. Overseas placement is typically not a preconceived career goal but a step in broadening the young executive's experience.[7] Indeed, the methods of multinational companies in developing executive leadership are worthy of study by national governments desiring to reform their foreign services so that they may function effectively in an age of instantaneous communication and supersonic flight.

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[7]Richard F. Gonzalez and Anant R. Neghandi, The U. S. Overseas Executive: His Orientation and Career Patterns (East Lansing: Michigan State University Press, 1967).

VI

THE MULTINATIONAL CORPORATION AND ITS INDUSTRIAL RELATIONS

The multinational firm operates in and across several or many different industrial relations environments.[1] Thus, important general characteristics of any industrial relations system, such as strike propensities and collective bargaining structures, become variables at the global planning level. In some nations, the employer may choose or be able to exercise a paternalistic relationship with his employees. At the other end of the spectrum, employers may be required by law to share management responsibilities with representatives of the workers, as in the codetermination system of Germany. Labour unions vary greatly in strength, in their degrees of political activism, and in the issues considered appropriate for negotiation with the employer. Furthermore, many features of national labour relations environments have been changing significantly in recent years.[2]

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[1] For a representative comparative study of industrial relations environments cf., Everett M. Kassalow, Trade Unions and Industrial Relations: An International Comparison (New York: Random House, 1969).

[2] cf. Jean-Daniel Reynand, "The Future of Industrial

Work Force Management

In recognition of the unique cultural, legal, and institutional settings in different nations which affect labour relations through varying social values, psychic needs of workers, the peculiar industrial relations lore and pertinent legal intricacies, multinational firms have generally delegated the task of work force management to the managers of foreign subsidiaries. In the negotiation of agreements, local managers know the local situation in more detail, and as they will have to manage under the terms of the agreement, they should be responsible for its final arrangements. For international management to hold the final authority in negotiations would tend, moreover, to lower the status, authority and efficiency of the local management. A policy of great local autonomy in labour relations, however, assumes that local managers have been competently trained for administering labour affairs.

There are strong arguments, though, for international management exercising some control coordin-

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Relations in Western Europe." Bulletin, International Institute for Labour Studies (Geneva, February 1968), pp. 88-115; B. J. Widick, "The New Look in Labour Relations," Columbia Journal of World Business, July - August 1971, pp. 63-67; Robert W. Cox, "Approaches to a Futurology of Labour Relations," Bulletin, International Institute for Labour Studies (Geneva, 1971), pp. 139-64.

ation.[3] In new units, acquired as going concerns, local management experience in labour management may not be extensive nor up to the standard expected of a multinational corporation. Also, agreements made in one country may affect the international plans of the corporation or create precedents for negotiations in other countries. The more unions cooperate across country boundaries, the more need there will be for the firm to present a consistent front. The case for central labour relations coordination is thus strong but such coordination should involve full participation by local management and infringe as little as possible on local autonomy.

Coordination does not necessarily mean that the international firm should have common policies in all countries. A whole range of elements may differ from environment to environment leading to different arrangements in each. Any attempt to impose parent company policies on new situations where they do not fit would be wrong. To have a world-wide policy to avoid unionization simply because this had worked in the parent company's own environment would be one such example. Many companies who are not unionized in the parent unit have successfully followed

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[3] cf. Duane Kujawa, International Labour Relations Management in the Automotive Industry (New York: Praeger Publishers, Inc., 1971).

unionization in subsidiaries and vice versa.

In fulfilling its coordination role and in managing its own responsibilities, headquarters' staff needs to develop considerable understanding and a continuing flow of information on national-labour-management patterns. Assessments and forecasts of the labour relations components of national environments are a necessary input for decisions on the location and expansion of facilities. They are also necessary for evaluating the performance of subsidiaries and local managers. Where transnational throughput patterns have been developed so that a subsidiary in one country relies on a subsidiary in another country as a source of components or as a user of its output, labour relations throughout the system become of direct importance to central management for maintaining its global production and distribution stategies.

Transnational Labour Union Collaboration

The most urgent consideration, however, pressing on the headquarters of multinational enterprises with respect to labour management affairs has been the move toward internationalization of the labour movement as a direct reaction to the growth of the multinational corporation. Unions around the world have felt increasingly threatened by powerful multinational employers and have moved in the direction of

cooperation across national boundaries in organising, bargaining, and in using the strike weapon. In essence, their situation parallels that of national governments: they are, basically, national institutions facing an international challenge.

Many trade unionists are firmly convinced that multinational companies make their decisions on all important matters on a highly centralized basis, with central headquarters concerned only with global goals. Others feel seriously handicapped because of what they describe as a floating and invisible decision center for labour relations matters. Subsidiary companies, so the complaint goes, claim that decisions are made at central headquarters, and central headquarters respond that decisions are made by their subsidiaries. Another belief is that international companies can shift their investments at will and will do so if a trade union is found "unreasonable" in its demands. Still another problem trade unions see in collective bargaining is the ability of the firm to call on plants in another country to meet production needs when there is a strike in one particular location.[4]

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[4]Harry Weiss, "The Multinational Corporation and Its Impact on Collective Bargaining", Collective Bargaining Today (Washington, D.C.: Bureau of National Affairs, Inc. 1971), pp. 287-312.

While the internationalization of business has been going on for many years the response of labour union organisations has begun to crystallize only since the middle 1960's. Although strong environmental forces favour local labour-relations patterns and mitigate against the internationalization of the labour movement, transnational collaboration among unions has expanded and operated with considerable effectiveness in several areas.

Four general types of union strategies have already emerged in response to the multinational corporation. These strategies are the collection and dissemination of information, international consultation, coordination of union policies and tactics with respect to specific international firms, and a desire for controls over multinational corporations.[5]

The collection and dissemination of information has become a highly developed and widely utilized activity. The United Auto Workers, as only one example, recently developed a computer guide to collective bargaining and national social security provisions in the Latin American automobile industry which it was hoped would support the international

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[5]David H. Blake, "Corporate Structure and International Unionism", Columbia Journal of World Business (New York March - April 1972), pp. 19-26.

harmonization of wages and working conditions in this industry.

International consultation has occurred through world-wide meetings focusing on a specific multinational as well as through small meetings between representatives of two specific unions. In 1969, for example, the International Federation of Chemical and General Workers Union (known as ICF) held a precollective bargaining strategy meeting concerned with the world-wide operations of the French Company, St. Gobain. This consultation led to agreements by the various unions to adopt coordinated negotiating policies. While all unions did not follow the strategy recommendations, a number did.

As an example of coordinating tactics, the International Metal Workers Federation (IMF) has been attempting to organize procedures for a simultaneous ending of all labour agreements with a particular multinational company, thus possibly taking away from the firm the opportunity of using its subsidiaries in various countries to help break strikes elsewhere.[6]

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[6]For many specific details on the trade union response, cf. C. Tugendhat, Multinationals (Harmonsworth: Penquin Books, 1973), pp. 180-92; Charles Levinson, Capital, Inflation, and the Multinationals (New York: Macmillan Co., 1971); International Labour Organisation, Metal Trades Committee, General Report (Geneva: International Labour Office, 1970), pp. 145-80.

The fourth tactic, the drive for controls, has been used at the international and national level. A June 1971 meeting of the International Confederation of Free Trade Unions (ICFTU) passed a resolution urging the adoption of international and national standards for regulating international firms. On the national level, the United States union movement sponsored and supported legislation in 1971 that would lead to complete government regulation of the outflow of direct investment and the export of technology.[7]

Unions are basically nationalistic, and strong political and ideological cleavages exist between different national labour movements. Consequently, the degree of success that unions can achieve through international collaboration is uncertain. Nevertheless, attempts at cooperation in one form or another are bound to increase, and the management of the multinational firm must develop policies for meeting international requests, as well as partisan requests from labour in individual companies which are concerned with their position vis-a-vis employees in other countries. Local labour strategies will continue to be dominant, but supplementary global labour strategies will also be required.

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[7]cf. Symposium on the "Foreign Trade and Investment Act of 1972," Columbia Journal of World Business, (March-April 1972), pp. 11-18.

VII

EFFECTS OF MULTINATIONAL CORPORATIONS ON DEVELOPING COUNTRIES

The economic, political, technological, and cultural effects of multinational corporate investment are most striking when the host country is less developed than when it is relatively advanced, for it is in the less developed land that investment has made a strong impact on development. This conclusion emerges clearly from thirteen case studies made over a fifteen year period by the National Planning Association, whose credentials as an objective observer are beyond question.[1]

In all of these cases the U. S. corporation played an innovating and catalytic role, founding new industries, transmitting technological and managerial skills as well as capital, and in many cases creating entire social infra-structures of schools, housing, health facilities, and trans-

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[1]Publications in the Program "United States Business Performance Abroad" since 1953 have analysed the cases of Sears in Mexico, Grace in Peru, Creole Petroleum in Venezuela, Firestone in Liberia, Slamvac in Indonesia, United Fruit in Latin America, T. N. A. in Ethiopia, General Electric in Brazil, I. B. M. in France, Aluminium in India, U. S. Plywood in Congo, and International Basic Economy Corporation world-wide.

portation in order to conduct its business.

Sears, for example, pioneered the modern general supermarkets of Mexico, and established a large coterie of native manufacturing industries to stock its stores. United Fruit Company, one of the earliest American multinationals, was the major force in developing the international trade in bananas, pioneering in every aspect of the industry, from plantation production through disease-control techniques, land and ocean transport, and sales promotion. It enormously expanded the real incomes and welfare of the people of the six Central American republics in which it operated while earning a profit on its investment that averaged less than that realized by corporate business in the United States.

International Basic Economy Corporation organised for profit by the Rockefellar family for the purpose of introducing new industries and business methods into less developed countries, had established one hundred and nineteen subsidiaries and affiliates in thirty-three countries by the end of 1960. Its efforts were focused upon agri-business. Its subsidiaries made many innovations in the production of food and low-cost housing and in the economical distribution of food through supermarkets. Because of its heavy developmental and innovational costs, which broke the ground for later entry by local enterpreneurs, I.B.E.C.'s return on investment was subnormal.

These cases illustrate the role played by the American corporation in the developing countries. Although the conduct of American business abroad has not been impeccable, the over-all record strongly encourages an extension of this mode of "foreign aid". Indeed, the constructive developmental results of private business investment led the United States Agency for International Development (A.I.D.) to launch private enterprise support programs in 1950, and thereafter to rely increasingly upon enterprises in carrying out developmental tasks: stimulation of private investment was the motive behind the 1968 proposal of the Nixon administration to establish a new public corporation for this purpose.

In the face of a generally constructive record, how may one explain the widespread denunciation of American corporations abroad by foreign politicians as well as by American critics? Charges of "exploitation," "plundering," and "greed for profits" are often made, especially in the Latin-American countries. As the author of the study of United Fruit Company has pointed out,[2] there has been a "striking disparity between the reputation and the performance" of the company. Ignorance of the realities of private enterprise, of the hard tasks to be performed and the high

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[2]Raymond Vernon, "The Role of U. S. Enterprise Abroad," Daedalus, Winter, 1969, p. 1130.

risks to be run, is surely one part of the answer. For those ventures that succeed, profits may appear to be inordinately high. Yet, as Raymond Vernon remarks, "the history of such investment is littered with the bleached bones of many enterprises; and taking the failures with the successes, it is not clear that the investment has been handsomely rewarded."

Many companies have been obliged to deal with a range of problems vastly wider than those confronted at home. They have had to create whole communities, with their appurtenance infrastructures, out of wilderness environments, usually in countries with unstable governments and politically immature populations. It is in the light of this imperative that their occasional interference with local governments should be interpreted. The foreign company is always a convenient "whipping boy" for local politicians.

American corporate investment abroad has been gradually shifting from an earlier emphasis upon the mining, extractive, and raw-material industries toward diversified manufacturing and merchandising operations. One important consequence has been a great increase in United States exports of technological and managerial skills and knowledge -- values to the recipient country which are unrequited. This shift

should serve to reduce the frequency of charges of "foreign exploitation."

The potential contribution of private corporations to the development of poor countries is large. It depends mainly on the development of stable governments in those countries and their actions to encourage private investment. Any less developed country that offers political stability, respect for contracts, financial responsibility, and equitable taxation will attract foreign investment -- and domestic as well. The remarkable evolution of such countries as Mexico, Malaysia, and Taiwan testify to this truth. If more low-income countries adhere to codes of foreign investment that reduce political risks, private firms will quickly expand their developmental roles.

The political risks of expropriation, civil war, and inconvertibility of currencies have risen in less developed lands as a result of changed world attitudes towards intervention by one nation into the domestic affairs of another. The era of "gun boat diplomacy" has passed. When an American corporation goes abroad today, it cannot expect the U. S. Government to protect its foreign properties. Since the expropriation of U. S. business properties by the Soviet government in 1917, there have been major expropriations by the governments of Mexico, Cuba, Argentina, Peru, Indonesia, and Eastern European countries involving estimated losses of

some 2.5 billion dollars.[3] "Prompt, adequate, and effective compensation," required by international law, has rarely been paid. The American company loses, but so does the expropriating country and the region in which it is located. Thus Cuba's expropriation in 1960 probably cost Latin America some five hundred million dollars of U. S. business investment in the following two years.[4]

The A. I. D. offers insurance to American corporations against major political risks of investment in those less developed countries that receive American economic assistance. If the flow of private investment is to be expanded, this insurance should be extended to cover more risks and more countries. At the same time, the low income countries should adopt and respect codes of foreign investment, and assure fair adjudication of disputes. The establishment of the International Centre for the Settlement of Investment Disputes, in 1966, was a desirable move in this direction. By mid-1968 some fifty-seven nations had ratified the convention establishing the centre, thereby agreeing to submit to its panels of experts any disputes

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[3]Franklin Root, "The Expropriation Experience of American Companies." Business Horizons, April, 1968.

[4]*Ibid.*, p. 69.

arising between their governments and foreign private investors.[5]

Private business investment is inherently superior to governmental aid as an instrument of development because it combines transfers of managerial and technical assistance with that of capital. General dissatisfaction with bilateral governmental aid makes it important to expand the flow of business investment. While measures to limit or to insure against risks will help to enlarge this flow, they will not remove the root causes of international tensions. The foreign subsidiary of the multinational corporation will still be charged with "exploitation" of local resources and with taking out too much profit. When it pays higher than prevailing wages and benefits to its employees, their higher living standards will provoke envy and resentment among other local citizens. Ways must be found to ameliorate this problem.

A promising approach is for the multinational company to agree with the foreign government on a reciprocal reinvestment program. The company would agree to reinvest a specified percentage of its profits, in return for which the host government would allocate specified amounts of its

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[5]cf. International Centre for Settlement of Investment Disputes Washington, D.C., Convention on the Settlement of Investment Dispute, in force October, 1966. First Annual Report 1966-67; Second Annual Report 1967-68.

revenues from corporate operations on schools, health, housing, and other forms of welfare for people in the communities in which the company is operating. Disparities in living conditions would be lessened and a source of social unrest would be removed. Because the agreement would require reciprocal actions and be of mutual benefit, the multinational company could not be accused of "interference" with local affairs.

The political and social effects of foreign corporate investment in developing countries are not as clear as the economic effects. The process of development is inherently unsettling to a society. By producing shifts in the distribution of income and wealth and redistributing economic power among social classes, development creates political stresses. Often these tensions can be relieved by peaceful political reforms; not infrequently they are followed by more or less violent upheavals. Indeed, being an agent of change, the foreign corporation is seen in the developing country as a threat to privileged positions in the traditional society, and is often attacked by existing vested interests as well as by social reformers and spokesmen for emerging interest groups.

The superficial cultural consequences of foreign corporate penetration of the developing countries can be plainly seen in the ready acceptance by host country citizens

of soft drinks, packaged foods, brand names, advertising, electrical appliances, autos, and all the other accoutrement of Western life. At a more fundamental level, it is likely that the status and value systems, the social attitudes and behavioral patterns, the arts and the essential cultural foundations of many of these countries will also undergo profound changes. While such changes ultimately should reduce barriers to communication between peoples, and lay a common basis for a stable world order, the transition from poverty to self-sustaining development will be marked by much international friction.

VIII

CONFLICT BETWEEN MULTINATIONAL CORPORATIONS AND DEVELOPING COUNTRIES

Most of the less developed countries of the world are prepared to invite foreign investors to undertake new enterprises inside their borders. Also, many foreign investors are prepared to take a serious look at the opportunities offered by the less developed countries. Yet only a small number of such arrangements are actually consumated.

Debates over the obstacles usually are too general to contribute very much to understanding. Business interests usually attribute the disappointing performance to "poor climate," generated by a lack of governmental understanding of business problems. Governments, on the other hand, tend to attribute the problem to private greed or private intolerance of risk.

Although many factors contribute to the lack of direct investment, one of the major issues is the struggle between foreign business and local government over control of any proposed investment.

Defining the Conflict In a simple economic model, an investment will be attractive to the investor if the

prospective yield to him exceeds his cost of capital and is the highest of the available alternatives; and it will be attractive to the host country if the prospective payment to the investor is lower than the social yield and the lowest of all possible alternatives.

No one doubts, however, that the questions which motivate and preoccupy both the investor and the host country are much more than questions of the price and yield on capital.[1] Although some issues can be forced into capital-price equivalents by the kind of conceptual repackaging to which economics is prone, a few issues persist of another kind. These non-price issues are summarised below.

The Host Country View To speak of a "host country view" is to do a certain violence to reality. There are many host countries, with points of view that differ in intensity and detail; and there are warring factions within host countries, eager to exploit the foreign investment issue or any other issue if it will advance their interests inside the body politic. Yet some useful generalizations can still be made that are representative of the views prevailing in

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[1] H. J. Robinson, The Motivation and Flow of Private Foreign Investment (Menlo Park, Calif.; Stanford Research Institute, Investment Series No. 4, 1961), p. 24; Michael Kindron, Foreign Investments in India (London: Oxford University Press, 1965), pp. 253-256.

less developed countries.

One well-advertised concern of the less developed nations with respect to foreign direct investments relates to their balance-of-payment effects. In an economy that operates in accordance with the main assumptions of the classical model, every investment presumptively produces goods and services that are sufficient to pay for the factors which are used to produce them, including the foreign capital; directly or indirectly, therefore, the economy acquires the incremental resources necessary to service the foreign capital.[2] But most less developed countries are unprepared to accept some of the critical assumptions of the classical model. They assume that foreign investment cannot be counted on automatically to generate its own exchange requirements, partly because national resources cannot easily be shifted from their existing uses to uses that earn or conserve added foreign exchange, and partly for other reasons.[3] As a result, such countries sometimes turn down foreign investment proposals or insist that part of the equity should be raised from domestic sources.

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[2]This familiar argument is well summarized in Edith Penrose, "Foreign Investment and the Growth of the Firm" Economic Journal, Vol. LXVI (June 1956), pp. 220-235.

[3]These alternative assumptions are incorporated formally in a two-gap model, now a fixture in development theory. An excellent summary is to be found in S. B. Linder, Trade and Trade Policy for Development (New York: Praeger, 1967), p. 42.

The case for worrying about foreign direct investments when based on capital-cost or balance-of-payment grounds, however, seems hardly firm enough to explain the intensity and universality of the less developed countries' reactions. In 1966, the investment of U. S. manufacturing companies in the less developed countries stood at about $3.5 billion, while the local value added annually by such companies was something over $3 billion.[4] The annual income remissions to U. S. parent companies on the other hand, were on the order of only $200 million.

Figures of this sort, taken by themselves, are not enough to gauge the effects on the economy of the investments concerned; yet neither are they of the sort that is calculated to stir expressions of concern about the balance of payments costs of foreign investment. Those expressions are usually proxies of another kind of worry -- the worry that such investment may lead to a dilution of a country's control over its national industries.

The motives behind the desire for national control differ according to the country and the group within the country espousing such control. As a rule, the desire for

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[4]This is a crude estimate based on the fact that gross sales of U. S. owned manufacturing enterprises located in the less developed world were about $9 billion in 1965, while the ratio of local wages, taxes, and other payments (except materials) to such sales, was about 33% in 1957.

control comes most strongly out of the government sector. At times, that desire finds expression in the policy of reserving certain industries for state ownership. State ownership provides a secure and easy way to tax a specific commodity such as tobacco, or to subsidize a commodity such as fertilizer. State ownership also offers an outlet for the creative energies of the military or the civil service. Foreign ownership obviously would imperil this sort of objective.

More often, however, national control may be important to the less developed economies for other reasons. A continuous and intimate dirigiste relationship usually exists between governments and businessmen in such economies especially during the industrializing phase.[5] Through that relationship, businessmen are the object of a stream of signals from government: advice to control price rises in inflation, to provide credit or materials, or capital to favoured enterprises, and so on. At the same time, the local entrepreneurs are themselves the originators of a series of demands on government: for protection from outside competition, for relief from the enforcement of existing tax laws or price ceilings, and much more.

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[5]cf., for instance, G. F. Papanek, Pakistan's Development (Cambridge, Mass.: Harvard University Press, 1967), p. 226, and T. R. Fillol, Social Factors in Economic Development: The Argentine Case (Cambridge, Mass.: M. I. T. Press, 1961), p. 57.

There have been cases in which foreign-owned enterprises have managed successfully and unobtrusively to take their place on the national communication grid. But the presence of the foreign enterprise is usually seen by both government and the private sector as a disturbing force. It is disturbing not only because of the enterprise's assumed reluctance or inability to participate in the intimate local network of communication, but also because of its putative capability for avoiding the impact of any signals that the network issues. Because such enterprises usually have well-established bases abroad with which they constantly deal, they are assumed to be able with great facility to transfer resources into the country and out again. The relative ease with which the enterprise is thought to be able to make and implement such choices, impervious to all but the most overt commands of the local economy, is seen as a challenge to local control.

The loss of control takes a more explicit and more threatening form from the point of view of the host government when another government becomes involved in the affairs of the subsidiary. For instance, the parent company may importune its government for help in protecting the subsidiary from "unfair" treatment at the hands of the host; or the government of the parent company may relay a command to the subsidiary -- a command to perform, or to desist from

performing, some act inside the economy of the host government. Will the copper companies in Africa and Latin America, if controlled by U. S. parents, be prevented from shipping their product to some communist country? Will the host countries, when pressing those companies for greater output or higher taxes, be pulled up short by counterpressure exerted through the foreign aid program?

The Investor's View Obstacles as seen through the eyes of prospective investors are now reviewed. If the views of such investors were to be taken at face value, the largest single obstacle to investment in the less developed countries would be the "poor climate" provided by host governments.[6] But this phrase is not very precise; and the more one tries to give it precision, the more one realises that the concept embodies a number of different elements.

At the root of the problem lies the ineluctable fact that less developed countries present a risky environment to the prospective investor. Many businessmen are prepared to accept some uncertainties as an unavoidable element of existence, and are prepared to rely upon a capacity to shift stragegies as their main defense.[7] But if

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[6] Y. Aharoni, Obstacles and Incentives to Private Investment 1962 - 1964 (New York: NICB, 1966), p. 39.

[7] For illustrations, cf. M. R. Copen, The Management of U. S. Manufacturing Subsidiaries in a Developing Nation: India (unpublished D.B.A. thesis, Harvard Graduate School of Business Administration, May, 1967), p. 110.

they fear that they may not be allowed to make the shifts as uncertainties arise, the environment is regarded as specially hostile. Beyond that, if the government is thought to have a propensity for injecting new uncertainties into the environment, through measures such as devaluations or price freezes, the climate is considered to be even poorer. The characteristic response of investors in such circumstances is either to reject the proposed investment or to tie up the government with guarantees and assurances aimed at reducing the uncertainty to tolerable levels and at regaining a certain measure of control.

Control is desired not only to deal with uncertainty but also to ensure that operations of the subsidiary are related to those of the parent in ways that best serve the investor's total interests. To the extent that the investor is interested in profit, the relevant profit is that of the total network of the investor's interests, not that of the prospective subsidiary alone. Even if a subsidiary investment appears to yield very little profit directly, it may yield profits that are captured in a downstream affiliate, or it may provide a captive outlet for the intermediate goods produced by the parent.[8]

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[8] D. R. Weigel, The Relation Between Government Economic Policy and Direct Investment in Developing Countries (unpublished Ph.D. Thesis, Stanford University, June 1966). p. 71.

In some cases it may be providing security to the firm's system as a whole, because it represents an offset to a move by a rival firm in an oligopolistic industry; for instance, if the rival established itself in a new market or a new materials-producing area that might eventually prove important, prudence may suggest the establishment of an offsetting operation in the same geographical or political unit however underdeveloped and uncertain that area may be currently.[9]

It is not only the joint objectives but also the joint resources of the whole system that may be involved in the subsidiary investment. It must be borne in mind that the return which the investor is seeking to maximize may not at all be a return on finance capital; for the large multinational enterprise, the supply of finance capital at times may be almost infinitely elastic. Factors other than capital may be the relatively scarce inputs, on which quasi-rents can be captured. One such scarce factor -- especially relevant to the prospective investor when considering whether to invest in a new source or supply -- is an established market position, rendered secure by a strong distribution system or by patents.

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[9]United Nations, The Promotion of the International Flow of Private Capital (E/3325, February 1960), p. 12.

Another scarce factor is an established organisation capable of performing certain relatively difficult acts, such as identifying technological needs and generating a relevant response. How to secure the maximum yield on these joint resources of the system then becomes the object of the business strategy. Such a strategy is likely to be imperiled if control over the subsidiary is uncertain.

The issue of control, therefore, emerges as a major preoccupation not only of the host government, but also of the investor. The critical question for any policy-maker is whether the needs of both parties can simultaneously be served.

IX

RECONCILIATION POSSIBILITIES BETWEEN MULTINATIONAL CORPORATIONS AND DEVELOPING COUNTRIES

Conflicts between multinational enterprises and host governments lead to a consideration of many different arrangements. As a way of describing these, however, it is useful to consider four "pure" types, always bearing in mind that reality itself is a good deal more hybrid and more complex. These four types, in rough descending order of "degree of foreign control", are:

1. The wholly-owned subsidiary -- a corporate entity created under the local law of the host country, wholly owned and wholly managed by the foreign investor;

2. The joint venture -- a corporate entity created under local law, partially owned by local private or public interests, and managed according to policies responsive in part to those local interests.

3. The co-production agreement -- an agreement between a foreigner and an entity that is owned and managed by public authorities in the host country, under which (i) the entity acquires specified machinery and technology from the foreigner; (ii) the entity is committed to producing specified products; and (iii) the entity, over a number

of years "pays" the foreigner for the machinery and technology in kind, i.e., in specified products;[1] and

4. The technical assistance agreement -- an agreement between a foreigner and an entity created under local law and owned by local public or private interests, in which the foreigner provides management services, technical information, or both, and receives payment in money.[2]

The labels of course can sometimes be misleading. One can find cases in which a parent that normally "owns" a wholly-owned subsidiary is restrained in its power to shape the subsidiary's policies; and cases in which the foreign "manager" of a local enterprise actually has a range of powers equivalent to an unrestrained owner. But those are the exceptional cases. Generally, the four types of agreement have predictably different implications. Which of these approaches is the better "bargain" is generally indeterminate; all depends on the value of what the host country foregoes by reason of not acquiring resources, measured against what is achieved by reducing the foreigner's control.

The question of changing needs on the part of the host country is especially important. Such changes are

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[1] cf. Emile Benoit, "East-West Business Cooperation", New Republic, Vol. CLVI (February 1967), pp. 21-23.

[2] cf. J. S. Pforde, An International Trade in Managerial Skills (Oxford: Blackwell, 1957).

usually induced by a change in the state of development of the country, or by a change in the nature of the product involved. To appreciate how these differences come about and what they imply, three major types of foreign investment in the developing countries are considered:

1. The raw-material producing facility;
2. The facility for the production of import-substituting goods; and
3. The facility for the production and export of manufactured goods.

Raw Material Investments

Investments to exploit raw materials cover a wide spectrum of situations. At one end are products like oil, copper, and bauxite. In these cases, the production process is relatively capital-intensive; it requires a certain amount of organisation, management, and technical skill; and it generates a product that is characteristically marketed in closed channels, by sales between affiliates. The evidence suggests that in such cases raw material investment is usually made because users prefer to control their own resources, even if such use involves the absorption of relatively high freight costs.[3] This preference may

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[3] cf. J. E. Tilton, "The Choice of Trading Partners: An Analysis of International Trade in Aluminium, Bauxite, Copper, Lead, Tin, and Zinc," Yale Economic Surveys, VI (Fall, 1966), p. 474.

reflect the existence of a strategy among vertically-integrated game-playing oligopolists, no one of which is willing to be at the mercy of the others in time of raw-material shortage. In some cases, it probably also reflects the technical desirability of relating a user plant to a single raw-material source because of physical variations in the raw materials drawn from different sources.

At the other end of the spectrum are investments in the production of materials such as cotton, coffee, and sugar. In these products, capital, training, and technical skill may be important in reducing costs and increasing yields. But a variety of different production functions are possible; a larger proportion of sales may be made in the open market; and the entry of new producers is relatively easy.

The classification, once articulated, suggests a great deal about the bargaining strength of foreign investors relative to host governments. Where high capital inputs, difficult management and information requirements, product differentiation, and the strategic need for a tied production source go hand in hand, the host governments confronts a well-entrenched bargainer.

But no industry, however tightly organised, remains unchanged in structure over many decades. The sources of both "non-renewable" raw materials and the "renewable" products of the forest and soil continue to multiply as

long as they are in demand. At the same time, the smelters, refineries, and mills that are associated with the initial treatment of raw-materials are constantly growing in number, Opportunities for new entrants at the processing level periodically arise; and if they do not arise as a result of market growth, they are generated artificially by governmental action. Therefore, as the number of buyers and sellers has multiplied, tight oligopoly structures have been known to show signs of unraveling.

In the field of petroleum, there has been a rapid change in the apparent bargaining positions of investors and host governments. Host governments have demanded and have managed to get increased shares of the profits.[4] Governments are also demanding and are beginning to acquire a voice in the management of the producing facilities; O.P.E.C.'s steady pressure for involvement in the pricing and production policies of the oil companies is telling

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[4] _The Globe and Mail_, August 23, 1974, p. 32.

The Government of Kuwait has demanded a 60 per cent capital participation in Arabia Oil Co., a Japanese-Kuwait-Saudi Arabian joint venture.

Kuwait now holds 10 per cent of the Japanese-based oil drilling company. Its shares are traded on the Tokyo Stock Exchange. Saudi Arabia also has 10 per cent of the total 25 billion zen capital, a company spokesman said.

It was Kuwait's second such move following its acquisition of a 60 per cent share in Kuwait Oil Co., a joint venture of Kuwait British Petroleum and Gulf Oil Corp. of Pittsburg.

evidence of the trend. Exporting countries are even beginning to develop foreign marketing capabilities of their own.[5]

The root cause of these trends in the oil industry is the decline in the negotiating strength of the international oil companies, due to:

(1) the proliferation of crude oil sources;

(2) the growing availability of packaged refineries purchased on a turnkey basis; and

(3) the greater ease with which such operations can be financed, due to the appearance of new financial sources such as the World Bank institutions, the regional banks and the balance of payments surpluses accruing to some developing countries themselves.

In brief, the capacity of the international oil companies for providing markets, management, and capital, although still of major importance to foreign governments, no longer appears as absolutely indispensable as it did only a few decades ago.

This interpretation leads to certain implications. Raw-material-producing countries are in a stronger position to demand joint ventures or co-production agreements or

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[5]As evidenced by some of the operations of Iran's N.I.O.C.

management contracts, as indeed they have been doing. But these countries, while overcoming one form of dominance -- the dominance of the foreign investor -- are exposing themselves to another. Although the market for oil and copper is hardly likely to reach the classical atomized structure that exists for coffee, cotton, and sugar, this is the direction of its movements. The oligopoly stability that each of these countries so patently desires depends at present upon continuing the direct tie between the producing facilities in its territory and the marketing facilities with which it is linked. That tie is now provided by the multinational enterprise, whose integrated strategy provides an assured market for a predictable output. As the producing countries gain a voice in management prerogatives, the foreign enterprises have less incentive to try to maintain direct links between production and marketing.

It may be that the tension this difficult position generates cannot be measurably reduced as long as there is a struggle over where the authority for major business decisions should rest. In that case, we must look for such tension to continue for a long time. For on any set of assumptions, it would be decades before the producing countries could be expected to take over all the producing and marketing functions, especially the international ones for themselves.

The Import-Substituting Manufacturing Investment

The advantages that a developing country sees in any given foreign investment in its economy tend to decline as the enterprise ages. This is a generalization that requires numerous caveats, of course. If the foreign investor rapidly alters the character of his investment after it is established -- if, for instance, he turns from automobile assembly to automobile manufacture -- the new activities may prove even more attractive to host governments than the original ones. On the other hand, if the general nature of the investment remains unchanged during its life, then there is a strong case of the view that its attractiveness to the host economy will decline.

It would be difficult to test the generalizations with solid evidence; but it seems to follow well enough from the nature of the situation. To the extent that capital, management skill, and information are acquired, the most obvious and most valuable infusions usually take place at the beginning of the undertaking; after the first importation of capital, very little of the subsequent growth is financed through funds from outside the host country. After the early transplant of technology and managerial assistance, the occult character of these contributions probably also declines in the eyes of host govern-

ments. Local businessmen arise who seem willing and able to take over the business, compete with it or replace it. Accordingly, it seems safe to conclude that a foreign investment that has remained unaltered in structure, purpose and/or aggregate scale of operations over any extended period of time is less attractive to the host country in its later stages than in its beginnings. It is, by the same count, less a problem to the host country.

Although the above generalizations are inherently plausible, they are a matter of surmise. However, some hard evidence does exist with respect to a related proposition of considerable significance. The older a given technology, the more likely that the new entrants using the technology will set up their plants free of the innovator's control. Therefore, as far as the developing countries are concerned, the older the technology adopted, the more likely it is to be free of foreign control.

The form of enterprise, however, depends not only on the interests of the host country but also on the interests of the foreign investor. As often as not, according to the evidence, foreign investors in developing countries make their initial investments under duress, usually under fear of exclusion from a market that had initially been developed by means of exports from the parent firm. Characteristically, the initial investment has been held down to the smallest possible commitment necessary for market access, such as for

automobiles. Eventually, the commitment has deepened and broadened, sometimes under pressure from the host government, sometimes as a result of the development of reliable local sources of inputs.

In some of these cases, foreigners have been quite willing to accept an arrangement in which control was shared with local interests. If the initial commitment was to consist of nothing more than the processing and sale of quality-controlled and name-branded materials provided by the parent company for marketing solely in the local market, then the presence of a local partner in the venture did not seriously impair the firm's essential strategy.

If deviations from international quality or pricing practices were required for the local market, even these might be managed as a special and isolated case. True, the local partner might prove obstreperous in demanding a larger dividend pay-out and a lower rate of plough-back than the foreigner (thus incidentally behaving contrary to the hopes of his government that he might act as a restraining force in such matter). The local partner might even enquire from time to time about the formulas being used by the foreign partner to fix transfer prices or allocate central office charges (thereby performing much more in accord with his intended role). But difficulties such as these, annoying though they might be, could be

managed by the foreign partner if the local facility was not vital to the structure and strategy of the multinational system.

If developing countries were content to limit themselves to import-substituting manufacturers alone, the foreign investors who had been persuaded to enter the market by way of a joint venture might well remain content with that form of investment. But the vanguard of the developing countries is plainly moving beyond this stage. Palpable pressures are compelling the developing countries to interest themselves in the export of manufactured products. Part of the pressure comes as a result of the anticipated strengthening of regional trade groups, such as, for example, Latin American Free Trade Area and the Central American Common Market. Part comes as a result of the need to expand the exports of manufacturers to the markets of North America and Western Europe.

When the host government becomes eager for access to export markets, the foreign investor's negotiating position usually strengthens. At the same time, however, because the output of the local subsidiary no longer is to be confined to a limited, isolated market, the foreign investor's need for control sharply increases. At that point, therefore, it is not unreasonable to anticipate that the foreign investor will feel a new and heightened interest

in reacquiring total and unambiguous control. Whether his negotiating position is strong enough to sustain such a demand depends upon the individual case; but that is almost certainly the direction in which the foreigner's interests will run.

Manufacturing for Export

The exports of manufacturers from developing countries to the markets of more advanced nations are increasing and diversifying rather rapidly.[6] But they are still quite small in total quantity; and they must increase more rapidly still if the balance-of-payment constraint on economic growth is to be relaxed very much.

The analytical work that has been done on factors that may be impeding such exports is impressive and enlightening.[7] For all the research done so far, however, there is still a considerable amount of uncertainty about the necessary and sufficient conditions for expanding the exports of manufactured goods by developing countries.

One view is that a more adequate flow of information between the developing countries and the advanced

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[6] cf. International Trade 1966 (Geneva: G.A.T.T. Secretariat, 1967), pp. 55-61.

[7] cf., for example, Bela Balassa, Trade Prospects for Developing Countries (Homewood, Ill.: Richard D. Irwin, 1964).

countries concerning market demand and production capabilities would represent both the necessary and the sufficient condition for a considerable rise in exports on the part of the developing countries. The kind of information flow needed to sell manufactured goods in the advanced countries is of a different order of detail and credibility than the information flow needed for the sale of raw materials: the more sophisticated the product, the more the need for a credible and effective two-way informational flow to market it.[8]

Some countries have managed to generate the needed flow -- Japan, Taiwan, Hong Kong, Turkey, Israel, and Mexico are the outstanding cases. Various devices have been used to achieve these results, although the relative use of the devices is not well measured or documented. Japan has provided elaborate subsidies for market information and market contact, underwriting some of the costs not only of Japanese exporters but also of foreign exporters. Hong Kong, Taiwan, and Israel have used trade channels whose efficiency may have depended in part on the special personal ties of their businessmen abroad. Many countries have relied on the relationship between

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[8] _Problems and Prospects in the Export of Manufactured Goods from the Less-Developed Countries_ (U.N.C.T.A.D., E/Conf. 46/P/2, March/June, 1964).

local subsidiaries and foreign parents, thus internationalizing the information flow within a corporate group; in such cases, company groups like Ford, IBM, Philips, ITT, Olivetti, and others have provided the conduits to support the flow of credible information.

Would such conduits be as effective if the enterprises in the developing countries, instead of being wholly-owned subsidiaries, were joint ventures or co-production enterprises or were simply managed under contract by a foreign manager? Although hard data on the subject are limited, perhaps the wholly-owned subsidiary is to be preferred. That preference may be weak if the sales of the enterprise are to be confined to small regional markets, outside the mainstream of the foreign parent company; but it is likely to be stronger, perhaps even controlling, if the major markets of the foreign parent are involved.

The problem that this preference presents for the developing country is less formidable with regard to simple standardized manufactures, such as sewing machines, barbed wire, grey cloth, and frozen shrimp than it is for more advanced products. In the case of the simpler products the management and technology are not difficult, and market penetration depends primarily on price; there is accordingly no heavy dependence on the foreign enterprise. But for more complex products, involving quality control, adaptation to market, the bargaining position of the developing country

may be very much more difficult.

Avoidance of Tension

Despite the diversity, there are certain main themes that stand out. At the very onset of a foreign venture in the developing countries, the parties confront the basic issue of the size and depth of the commitment. Whatever the initial position of the parties may be, however, there is a strong likelihood that the interests of each will change. On the host country's side, an initial willingness to forego control in the interest of securing needed resources is likely to be eroded. Either the foreign investor will have to provide new resources, such as more capital or different or up-graded technology or widened acess to markets; or he will confront new demands by the host government for shared control or both will occur. On the foreign investor's side, the changing character of the local operation may suggest the need for more control as well.

There are two projections commonly made as to the outcome of these changes. One projection, popular among the developing countries, is that it is only a matter of time before foreign investors can be made unnecessary; another, popular among investors, is that it is only a matter of time before foreign direct investment is accepted in the developing countries with tolerance and appreciation.

The present discussion indicates that both views are wrong. It has been suggested that the position of the foreign investor will continually change as will that of host governments, both being related to their respective attitudes and functional abilities with respect to capital, markets and technology and control and sovereignty from the host countries governments' point of view. Tensions will rise and fall in patterns that are partly predictable, reflecting the relative strengths of the parties concerned and the changing nature of their interests.

Tensions could be reduced if (1) both parties were agreed that the initial arrangement would remain undisturbed for some fixed period of time; and (2) the termination date of the arrangement, although distant, was not remote.

Arrangements along these lines might well provide the investor with the prospect of the clear run necessary to justify his initial commitment, while yet providing the host government with the option of reacquiring control at some tolerable future date. Agreements of this sort, however, are not easily framed; among other things, they have to provide for the contingency that renewal negotiations, when they become due, might break down. To deal with that contingency, one would have to envisage a procedure that promised liquidation of mutual commitments on a reasonable basis. From a technical point of view, these problems

can be difficult; but they are far from impossible.

But who will build the bridge? Prospective investors are understandably reluctant to initiate proposals that might demand eventual renegotiation of their undertakings, even if renegotiation should prove in their interests. Prospective governments are often limited in their capacities to frame and negotiate the novel and complex arrangements that may be involved and for operation in the time-frame required. Here is an opportunity for institution building in the interests of economic development.

X

POLICIES AND PROGRAMMES TO EXPAND MULTINATIONAL BUSINESS

Corporate Policies

The corporate managers of multinational corporations should try to understand the attitudes of host governments. Typically, those governments want local participation in the ownership of affiliates, management by their own nationals, indigenous research and development capabilities, wide autonomy, and freedom to export products without restrictions. Although these conditions cannot fully be met if efficiency and economies of scale are to be realized, top management of the multinational company can alleviate criticism and improve international relations by adopting the following policies:

1. Publicize in the host country the costs and risks the company has assumed and the economic benefits it brings to the people.
2. Identify the interests of the company with those of the host country in every possible way. (For example, American petroleum companies have developed water resources and built modern farming communities to reduce the food deficits of North African and Middle Eastern countries).
3. Conform to local business practices, except when efficiency clearly demands a change, and then after consultation with

local authorities.

4. Decentralize authority to the managers of foreign affiliates to the maximum feasible extent, and broaden such delegations through time.
5. Perform a maximum of research and product-development activities in the host country.
6. Adopt a specific program for progressively nationalizing the personnel of foreign affiliates while reducing the number of parent country expatriates.
7. Establish stock-ownership schemes for foreign employees, and permit the company's securities to be traded in their countries stock exchanges.

Some foreign complaints about U. S. corporate investment reflect a misunderstanding of the benefits received by the host country. Other complaints have merit and call for adjustments in the behaviour of American managements abroad or for intergovernmental consultative machinery. The overriding conclusion, however, is that there are no irremediable conflicts of national interest. On the contrary, private international capital flows create rising pressures to lower national barriers to a world economy, and to harmonize or unify national systems of money, taxation, transportation, commerce, and law.

National Policies

As multi-national business in certain circumstances could be of benefit to both the investing and host countries, public policy should encourage the development of a favourable climate of successful co-operation, and establish and maintain all the necessary checks and balances. National governments should refrain from actions that retard the international flow of capital and technological know-how, although at the same time endeavor to establish some common rules and regulations under which multi-nationals will operate for mutual benefit without infringing on the sovereign rights and policies of the recipient governments.

What should the investing countries do to foster multinational business?

1. Harmonization of policies on taxation, competition, and international trade with those of developing countries would remove a fertile source of friction and misunderstanding.
2. Some sort of foreign investment guarantee programme would be a constructive step.
3. Reciprocal investment agreements between multinational corporations and the governments of developing countries would help to diminish the disparities between living conditions of local citizens and those of foreign employees of multinational companies.

4. International agreements requiring multinationals to establish uniform labour standards in all the branches of the multinationals would help towards similar working conditions.

Host countries would benefit from the expansion of multinational business by removing barriers to capital flows and creating favourable climates for investment. There are other constructive measures developing countries might take:

1. Enact and adhere to fair codes of foreign investment that would enable the foreign company to know where it stood.
2. Liberalize its foreign exchange regulations to the maximum degree feasible in order to facilitate movements of capital and income.
3. Become associated with the Center for the Settlement of Investment Disputes so that foreign investors could be assured of an impartial forum to hear any grievances.
4. Use their comparative advantages in international trade to facilitate their development, rather than seek economic autarchy through policies of "import substitution".

International Policies

The public regulation of multinational companies presents an unsolved problem. So far, they have been chartered and regulated by the respective countries in which

their affiliates do business. Is national regulation enough or should regulation by a supernational authority, tributory to the United Nations, supplement or supplant national regulation?

This issue is analogous to the long-discussed question of federal versus state chartering and regulation of business corporations in the United States. Bearing in mind the competition among the states for corporate fees by offering ever more liberal charters, a strong case can be made for a federal monopoly of chartering and regulation of corporations engaged in interstate commerce or commerce in more than one state. Nearly all large American corporations would be required to obtain federal charters under such a requirement. Corporate powers and government would become less diverse and more easily understood by stockholders and directors. Corporations could no longer shop around among the states to obtain the best combination of broad officer powers and low taxes and fees.

By analogy, there is a strong case for supranational versus national chartering of multinational business firms.

Ideally, one may visualize a World Corporation Authority, established under the aegis of the United Nations, to charter and regulate multinational enterprises. The insoluble problem is how to develop within the United Nations

a universal corporate law that would be operationally valid.

Programmes For Action

The appropriate strategy for action would be to set up appropriate machinery and procedures whereby many key issues can be dealt with flexibly and simultaneously. The following is suggested as a set of recommendations:

1. As a minimum, there should be a proper international forum in which views can be aired and problems discussed. The Economic and Social Council of the United Nations, aided by a committee under it, could assume the main function, drawing on the findings of other more specialized bodies on particular aspects. The objective of the forum would not be to adjudicate but to gather and publicize facts and, through public opinion, serve as a deterrent to abuses. It could also be instrumental in developing policies and programmes for further action.
2. Although much has been published on multinational corporations in recent years, proper and precise information about their operations remain scarce. The lack of information, especially of a non-conventional nature, impedes the intelligent formulation of policies. The United Nations Secretariat or the United Nations Industrial Development Organization can serve as a center for collecting and disseminating information which ought to

be a matter of public knowledge and which would accurately reflect the phenomenon and operations of the multinational corporations. Such an activity will be especially necessary if the United Nations is to serve as a forum for purposes beyond general debate. It will also be useful in assisting national and regional efforts to monitor such practices of multinational corporations as transfer pricing.

3. Technical cooperation with countries and regional organisations need not be limited to the supply of information. It can cover all areas of activity pertaining to multinational corporations. As a minimum, the review and appraisal of the operations of multinational corporations and of policies towards them can be part of the broader exercise connected with the International Development Strategy for the Second Development Decade.

Technical cooperation can also enhance the bargaining power of the developing countries by providing expertise in the engineering, economic, commercial and legal fields. More specifically, existing arrangements with the multinational corporations can be analysed to identify deficiencies and potential areas of dispute. A corps of multidisciplinary advisors could be organised so that technical assistance in the review of multi-

national corporation activities and possibly negotiations with them could be put into operation with a maximum of expertise and a minimum of delay. These technical cooperation activities should be backed up by more fundamental research and case studies on a continuing basis within the United Nations. More generally, technical assistance should serve to promote alternative channels to the transfer of technology by multinational corporations.

4. International efforts can also be launched for the harmonization of national policies. A particularly urgent area is that of the taxation of profits of affiliates, which is also related to problems arising from tax evasion and double taxation. Another urgent area is the harmonization of incentive measures for foreign investment. Although country variations cannot be altogether eliminated, some definition of the rules of the game and of procedures for negotiation is desirable. A further area for harmonization is anti-monopoly legislation. Here again, current efforts by regional organisations should serve as a forerunner of international efforts. Lastly, the international harmonization of national environmental regulations would guard against the abuse of such regulations through using them as instruments for trade restriction.

5. The various rules of conduct, in due course, can be gathered together and codified. This is implicit in

proposals such as that for the establishment of any International Trade Organisation (I.T.O.) or of a G.A.T.T. type international system for transnational and multinational investment. Although such far-reaching proposals may not be ripe for immediate action, the possibilities for similar, perhaps more limited, types of arrangement can be developed in the near term.

Less ambitiously, a broad international code of conduct in respect of multinational corporations could be negotiated. Although such a code is unlikely to be enforceable without the I.T.O. or G.A.T.T. type of organisation, the discussions leading to it could serve as an educational process. Such a code could also serve as a guide to the review and appraisal of the activities of host and home countries as well as of the multinational corporations.

6. On a more limited but still international scale, multinational corporations could be registered with an international organisation under the auspices of the United Nations. A set of qualifying criteria, such as "multinationality" of ownership and management, and certain duties and obligations, such as minimum disclosures and periodic reports, could be specified. The main advantage of the international organization to the multinational corporation would be to obtain repute

and publicity but registration could also entail certain defined privileges, such as access to procedures for complaint against mistreatment.

A more far-reaching proposal is that for the negotiation of a treaty or a law for the establishment of "International Corporations". The agreement establishing Interim Arrangements for a Global Commercial Communications Satellite System is an example of such an instrument. The proposed European Company Law, which is independent of national legislation, is an indication of possibilities at the regional level. The proposed International Sea-bed Authority points to the necessity of supranational organisation in some areas. The proposal for the establishment of a legal framework for international corporations, in various forms, thus deserves further study.

7. So long as international authority is lacking, there can be vitually no appropriate machinery for the settlement of disputes. More use, therefore, may be made of voluntary conciliation or arbitration procedures. While a number of governments may be unwilling to submit themselves to arbitration, some may find it convenient. Prearrangements may, therefore, be made for resort to such procedures. A more effective way of dealing with disputes, however, would be through prevention, by means such as those outlined earlier.

The United Nations Economic and Social Council adopted unanimously on July 20, 1972 a resolution requesting the Secretary-General to appoint a Group of Eminent Persons to study the role of multinational corporations and their impact on the process of development, especially that of developing countries, and also their implications for international relations, to formulate conclusions which may possibly be used by governments in making their sovereign decision regarding national policy in this respect, and to submit recommendations for appropriate international action.[1]

In conclusion, the adoption of the U. N. Economic and Social Council resolution needs to be followed by the charting of a programme of action for the United Nations. Although opinions may differ concerning some far-reaching proposals, there is hardly any doubt that consensus is possible on many points. Some proposals, indeed, can be implemented immediately, while others will require further study to prepare the ground for more difficult negotiations in the future.

Future of Multinationals

The multinational corporation is only at the beginning of its ultimate development, and its impact upon

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[1] N. Y. Times 21 June 1974 reported a discussion held recently in Mexico.

nations and the world order. Today few corporations are multinational in all dimensions. Most are national corporations that have gone abroad to do business, but retain the ownership, management, and world-view of their country of origin. Professor H. V. Perlmutter has drawn a perceptive distinction between ethnocentric companies, run from their home country and sending management abroad, polycentric companies, having strong subsidiaries operated by local management but subject to firm central control, and geocentric companies that have stockholders throughout the world, find management anywhere, and have a global flexibility.[2] Currently, the great preponderance of multinational firms are ethnocentric, a small minority are polycentric, and a mere handful, such as Shell, Unilever, and I.B.M., are geocentric.

Through time, national officers of subsidiaries of large multinational companies may be expected to rise to the top of the hierarchy. Shares of stock in more multinationals will be traded on the security exchanges of more nations. Equity ownership will spread through many lands. Geocentric companies will become numerous, polycentric companies typical and ethnocentric companies exceptional.

The multinational corporation has evolved in res-

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[2] H. V. Perlmutter, "The Tortuous Evolution of the Multinational Corporation", Columbia Journal of World Business, Columbia University, Jan.-Feb., 1969.

ponse to human needs for global instruments in economic activity, able to assemble resources and to organise production on a world wide scale. As it evolves further in this direction, it will find itself increasingly frustrated and constrained by national governments. The outcome of this conflict will depend upon the nature of the future world order. Will it continue to be a system of nation-states, weakly joined by the United Nations? Or will it become a true world government, as men come to recognise that the present order is too unstable to survive such influences as population explosion, technological revolution, ecological realities and human aspirations and frustrations.

The multinational corporation is, beyond doubt, the most powerful agency for regional and global economic unity and development that our century has produced. Its transactions are transnational in nature and purpose. Its interest should emphasise the common goals of peoples, to reconcile or remove differences between them. It cannot thrive in a regime of international tension and conflict. It is not too much to hope that, through the instrumentality of multinational business, the imperatives of world economic progress will ultimately succeed in doing what the awful threat of nuclear destruction has so far failed to accomplish -- to bring unity to mankind.

Progress demands mutual respect -- free of paternalism. Relations between multinational corporations and

developing countries too often assume the character of an adversary proceeding. In reality, the gain of one does not depend on the loss of the other. Both can win or both can lose.

APPENDIX

Foreign content of operations and assets of manufacturing corporations of market economies with sales of over $1 billion, 1971

Rank[a]	Company	Nationality	Total sales (millions of dollars)	Foreign content as percentage of					Number of subsidiary countries[c]
				Sales[b]	Production	Assets	Earnings	Employment	
1	General Motors	USA	28,264	19[j]	...	15[g]	19[j]	27[e]	21
2	Standard Oil (N.J.)	USA	18,701	50[j]	81[e]	52[h]	52[j]	...	25
3	Ford Motors	USA	16,433	26[j]	36[h]	40[h]	24[j]	48[e]	30
4	Royal Dutch/Shell Group	Neth.-UK	12,734	79[j]	...	...	...	70[j]	43
5	General Electric	USA	9,429	16[j]	...	15[h]	20[j]	...	32
6	International Business Machines	USA	8,274	39[j]	...	27[h]	50[j]	36[e]	80
7	Mobil Oil	USA	8,243	45[j]	...	46[h]	51[j]	51[h]	62
8	Chrysler	USA	7,999	24[j]	22[e]	31[h]	...	24[e]	26
9	Texaco	USA	7,529	40[j]	65[e]	...	25[e]	...	30
10	Unilever	Neth.-UK	7,483	80[j]	...	60[h]	...	70[i]	31
11	International Telephone and Telegraph Corp.	USA	7,346	42[j]	60[h]	61[h]	35[j]	72[h]	40
12	Western Electric	USA	6,045	...	...	...	...	...	...
13	Gulf Oil	USA	5,940	45[j]	75[e]	38[h]	21[j]	...	61
14	British Petroleum	UK	5,191	88[j]	...	...	...	83[j]	52
15	Philips' Gloeilampenfabrieken	Neth.	5,189	...	67[h]	53[h]	...	73[i]	29
16	Standard Oil of Calif.	USA	5,143	45[j]	46[j]	9[h]	43[h]	29[h]	26
17	Volkswagenwerk	FRG	4,967	69[j]	25[j]	...	...	18[j]	12
18	United States Steel	USA	4,928	54[e]	...	48[e]	62[e]	70[e]	...
19	Westinghouse Electric	USA	4,630	...	...	...	...	...	...
20	Nippon Steel	Japan	4,088	31[k]	...	...	...	2[k]	5
21	Standard Oil (Ind.)	USA	4,054	...	...	16[e]	...	...	24
22	Shell Oil (subsidiary of Royal Dutch/Shell)	USA	3,892	...	...	...	...	...	...
23	E.I. du Pont de Nemours	USA	3,848	18[j]	12[h]	12[g]	...	...	20
24	Siemens	FRG	3,815	39[j]	17[j]	...	...	23[j]	52
25	ICI (Imperial Chemical Industries)	UK	3,717	35[j]	42[h]	25[h]	...	27[j]	46
26	RCA	USA	3,711	...	...	...	...	...	18
27	Hitachi	Japan	3,633	39[k]	...	...	...	...	...
28	Goodyear Tire and Rubber	USA	3,602	30[g]	...	22[g]	30[g]	...	22
29	Nestle	Switz.	3,541	98[j]	...	90[h]	...	96[h]	15
30	Farbwerke Hoechst	FRG	3,487	42[j]	17[i]	...	...	...	43
31	Daimler-Benz	FRG	3,460	44[j]	12[j]	28[j]	...	...	12
32	Ling-Temco-Vought	USA	3,359	...	...	...	...	...	...
33	Toyota Motors	Japan	3,308	31[k]	...	1[k]	...	11[g]	6
34	Montedison	Italy	3,270	37[h]	...	...	...	...	14
35	British Steel	UK	3,216	3[j]	...	2[j]	...	8[j]	13
36	BASF	FRG	3,210	47[j]	17[j]	18[j]	...	...	14
37	Procter and Gamble	USA	3,178	25[j]	...	16[h]	25[j]	...	24
38	Atlantic Richfield	USA	3,135	...	...	...	...	...	12
39	Mitsubishi Heavy Industries	Japan	3,129	...	...	...	...	...	...
40	Nissan Motor	Japan	3,129	28[k]	...	1[k]	...	6[g]	10
41	Continental Oil	USA	3,051	...	...	20[d]	...	...	27
42	Boeing	USA	3,040	...	...	...	...	...	...
43	Union Carbide	USA	3,038	29[j]	25[h]	26[h]	22[e]	43[h]	34
44	International Harvester	USA	3,016	25[j]	19[h]	26[h]	10[g]	32[e]	20
45	Swift	USA	2,996	16[j]	...	...	...	...	...
46	Eastman Kodak	USA	2,976	33[k]	20[h]	27[k]	19[j]	40[k]	25
47	Bethlehem Steel	USA	2,964	2[e]	...	...	...	...	...
48	Kraftco	USA	2,960	...	...	...	...	...	16
49	Fiat	Italy	2,943	36[j]	...	43[j]	...	...	25
50	August Thyssen-Hufte	FRG	2,904	21[j]	...	...	...	...	23
51	Lockheed Aircraft	USA	2,852	3[d]	...	...	...	...	10
52	Tenneco	USA	2,841	...	...	...	...	...	14
53	British Leyland Motors	UK	2,836	14[j]	...	...	...	12[j]	33
54	Renault	France	2,747	41[k]	...	...	...	...	23
55	AEG-Telefunken	FRG	2,690	29[j]	8[j]	...	...	10[j]	31
56	Matsushita Electric Industrial	Japan	2,687	23[k]	...	...	...	1[k]	27
57	Bayer	FRG	2,649	54[j]	19[j]	...	...	16[j]	3
58	Greyhound	USA	2,616	...	...	...	...	...	...
59	Tokyo Shibaura Electric	Japan	2,553	13[k]	...	1[k]	...	15[k]	22
60	Firestone Tire and Rubber	USA	2,484	...	...	...	26[e]	24[d]	33

Foreign content of operations and assets of ... with sales of over $1 billion,

Foreign content of operations and assets of manufacturing corporations of market economies with sales of over $1 billion, 1971 (continued)

Rank a/	Company	Nationality	Total sales (millions of dollars)	Foreign content as percentage of: Sales b/	Production	Assets	Earnings	Employment	Number of subsidiary countries c/
61	Litton Industries.....	USA	2,466	17j/	...	...	...	...	13
62	Pechiney Ugine Kuhlmann............	France	2,462	12k/	...	...	...	...	29
63	Occidental Petroleum..	USA	2,400	46j/	...	...	...	...	21
64	Cie Francaise des Petroles............	France	2,395	49k/	...	...	...	...	28
65	Dunlop Pirelli Union..	Italy-UK	2,365	52k/	...	...	87k/	...	28
66	Phillips Petroleum....	USA	2,363	...	42e/	...	...	...	37
67	Akzo..................	Neth.	2,307	84i/	...	...	...	66i/	19
68	General Foods.........	USA	2,282	...	...	...	...	...	15
69	British-American Tobacco............	UK	2,262	93j/	100i/	82j/	92h/	84j/	54
70	General Electric......	UK	2,218	24j/	10h/	...	...	13j/	36
71	North American Rockwell............	USA	2,211	...	...	...	...	...	...
72	Rhone Poulenc.........	France	2,181	47i/	24h/	34i/	...	...	27
73	Caterpillar Tractor...	USA	2,175	53j/	14h/	25g/	...	17d/	14
74	ENI...................	Italy	2,172	...	...	...	...	18i/	39
75	National Coal Board...	UK	2,159	-	-	-	-	-	-
76	Nippon Kokan..........	Japan	2,122	29k/	...	...	...	1k/	4
77	BHP (Broken Hill Proprietary)........	Australia	2,100	-	-	-	-	-	-
78	Singer................	USA	2,099	37j/	...	54h/	75j/	66h/	30
79	Monsanto..............	USA	2,087	24j/	...	25d/	31j/	71k/	23
80	Continental Can.......	USA	2,082	...	...	...	...	...	11
81	Borden................	USA	2,070	7d/	...	12d/	13d/	...	...
82	McDonnell Douglas.....	USA	2,069	...	...	...	...	...	...
83	Dow Chemical..........	USA	2,053	40j/	25h/	...	45j/	22d/	24
84	W.R. Grace............	USA	2,049	35j/	34h/	...	39j/	60e/	18
85	Ruhrkohle.............	FRG	2,043	22j/	...	...	...	...	...
86	United Aircraft.......	USA	2,029	11d/	...	...	...	...	...
87	Rapid American........	USA	1,991	...	...	...	...	...	...
88	Union Oil of Calif....	USA	1,981	...	...	...	...	8d/	...
89	International Paper...	USA	1,970	10i/	...	...	...	...	11
90	Gutehoffnungshütte....	FRG	1,962	38i/	...	...	...	...	19
91	Xerox.................	USA	1,961	30j/	...	...	38j/	38j/	23
92	Honeywell.............	USA	1,946	35k/	...	20d/	...	24d/	20
93	Sun Oil...............	USA	1,939	...	...	...	...	...	21
94	Saint-Gobain-Pont-à Museum.............	France	1,914	19k/	...	...	...	...	13
95	American Can..........	USA	1,897	...	...	...	...	...	24
96	General Dynamics......	USA	1,809	...	...	...	...	...	16
97	Ciba-Geigy............	Switz.	1,843	98i/	66h/	...	...	71h/	37
98	Krupp-Konzern.........	FRG	1,843	23j/	3j/	...	...	3j/	15
99	Minnesota Mining and Manufacturing...	USA	1,829	36j/	30h/	29h/	29h/	40h/	29
100	Beatrice Foods........	USA	1,827	4d/	...	...	5d/	...	13
101	ELF Group.............	France	1,825	...	...	...	...	...	...
102	Mannesmann............	FRG	1,828	41j/	11j/	...	...	12j/	15
103	R.J. Reynolds Industries..........	USA	1,816	...	...	...	...	...	...
104	Cities Service........	USA	1,810	...	...	...	...	...	25
105	Citroën...............	France	1,792	33k/	...	...	...	...	13
106	Boise Cascade.........	USA	1,786	...	...	...	...	...	...
107	Ralston Purina........	USA	1,746	...	...	...	...	...	26
108	Sperry Rand...........	USA	1,739	34j/	...	28h/	...	42h/	27
109	Coca-Cola.............	USA	1,729	31j/	...	30d/	11d/	...	11
110	Burlington Industries.	USA	1,727	4h/	...	8h/	...	...	...
111	Cie Générale d' Electricité.........	France	1,699	20k/	...	...	...	...	14
112	Courtaulds............	UK	1,696	22j/	...	...	...	16j/	31
113	Armco Steel...........	USA	1,696	...	...	3d/	...	11d/	...
114	Consolidated Foods....	USA	1,689	...	...	...	...	...	10
115	Peugeot...............	France	1,685	36k/	...	...	...	...	...
116	Uniroyal..............	USA	1,678	27j/	...	30h/	75j/	...	20
117	American Brands.......	USA	1,627	...	...	...	...	...	...
118	Ashland Oil...........	USA	1,614	1d/	...	4d/	2d/	2d/	17
119	Bendix................	USA	1,613	49e/	14h/	10h/	...	...	20
120	Robert Bosch..........	FRG	1,607	39j/	8j/	...	...	20j/	23

Foreign content of operations and assets of [illegible]
corporations of market economies with sales of over $1 billion,
1971 (continued)

Rank a/	Company	Nationality	Total sales (millions of dollars)	Foreign content as percentage of: Sales b/	Production	Assets	Earnings	Employment	Number of subsidiary countries c/
121	ARBED	Luxembourg	1,604	...	...	...	...	...	...
122	Textron	USA	1,604	26 d/	...	...	...	...	13
123	U.S. Plywood-Champion Papers	USA	1,600	...	...	...	...	...	...
124	Brown Boveri	Switz.	1,599	76 j/	...	...	...	82 h/	11
125	Sumitomo Metal Industries	Japan	1,598	37 k/	...	...	...	...	3
126	Gulf and Western Industries	USA	1,566	...	...	...	...	...	14
127	TRW	USA	1,544	...	...	...	...	...	16
128	Associated British Foods	UK	1,525	32 j/	...	...	34 j/	24 j/	...
129	National Steel	USA	1,522	...	...	...	...	...	...
130	Owens-Illinois	USA	1,508	...	...	10 d/	9 d/	27 d/	15
131	CPC International	USA	1,500	50 j/	46 h/	27 h/	51 j/	...	22
132	Michelin	France	1,500	50 j/	...	...	...	...	13
133	Rheinstahl	FRG	1,483	23 j/	...	...	...	...	...
134	Kobe Steel	Japan	1,466	...	...	...	...	...	...
135	National Cash Register	USA	1,466	45 j/	41 h/	35 h/	60 h/	...	42
136	United Brands	USA	1,499	...	...	...	...	...	...
137	Georgia-Pacific	USA	1,447	...	...	...	...	...	...
138	Aluminium Co. of America	USA	1,441	...	...	7 d/	...	...	28
139	Hoesch	FRG	1,431	26 j/	...	...	...	...	14
140	Alcan Aluminium	Canada	1,431	...	...	42 h/	...	...	33 g/
141	American Home Products	USA	1,429	19 d/	...	14 d/	14 d/	...	27
142	American Standard	USA	1,410	36 j/	28 h/	30 h/	33 j/	...	21
143	U.S. Industries	USA	1,407	45 e/	...	...	5 e/	...	...
144	Hoffmann-LaRoche	Switz.	1,402	80 j/	...	...	...	83 h/	...
145	Standard Oil (Ohio)	USA	1,394	...	49 j/	...	...	...	...
146	Republic Steel	USA	1,385	...	...	...	...	...	...
147	GKN (Guest, Keen and Nettlefolds)	UK	1,377	16 j/	...	31 j/	38 j/	21 j/	27
148	KF (Kooperativa Förbundet)	Sweden	1,376	9 j/	...	...	...	...	13
149	FMC	USA	1,354	9 d/	...	...	...	...	19
150	Petrofina	Belgium	1,350	...	...	90 j/	...	...	21
151	Amerada Hess	USA	1,349	...	...	...	...	...	...
152	Warner-Lambert	USA	1,346	36 j/	33 h/	32 h/	33 g/	...	47
153	Getty Oil	USA	1,343	...	...	...	...	...	19
154	Reed International	UK	1,330	25 j/	...	...	...	17 j/	13
155	Allied Chemical	USA	1,326	...	...	...	...	6 d/	14
156	Colgate-Palmolive	USA	1,310	52 j/	...	50 h/	88 d/	70 d/	55
157	Raytheon	USA	1,308	6 d/	...	...	13 h/	13 h/	18
158	Genesco	USA	1,307	...	...	...	...	...	13
159	B.F. Goodrich	USA	1,300	...	...	...	...	...	24
160	Weyerhaeuser	USA	1,300	...	...	2 d/	...	...	12
161	Mitsubishi Electric	Japan	1,294	...	...	...	...	...	...
162	Taiyo Fishery	Japan	1,292	13 k/	...	...	...	21 k/	25
163	American Cyanamid	USA	1,283	18 j/	...	18 d/	30 j/	17 d/	27
164	Signal Companies	USA	1,281	...	...	...	...	...	16
165	Ishikawajima-Harima Heavy Industries	Japan	1,280	32 k/	...	-	...	13 k/	8
166	Whirlpool	USA	1,274	...	...	4 d/	...	...	...
167	Inland Steel	USA	1,254	...	...	...	...	...	...
168	Columbia Broadcasting System	USA	1,248	...	...	...	...	...	19
169	Metallgesellschaft	FRG	1,248	22 j/	6 j/	...	...	...	17
170	Thomson Brandt	France	1,246	23 k/	...	...	...	...	...
171	PPG Industries	USA	1,238	...	...	...	...	...	10
172	Celanese	USA	1,236	19 j/	...	22 h/	18 e/	...	21
173	American Motors	USA	1,232	...	...	9 d/	...	...	10
174	Pepsi Co.	USA	1,225	34 d/	...	...	...	52 d/	25
175	Pemes (Petrôleos Mexicanos)	Mexico	1,214	...	...	...	...	...	...
176	Philip Morris	USA	1,210	...	...	...	...	...	11
177	Volvo	Sweden	1,196	69 k/	26 h/	...	...	...	13
178	Deere	USA	1,188	...	...	...	...	...	14
179	Marathon Oil	USA	1,182	...	...	...	...	4 d/	...
180	Imperial Tobacco Group	UK	1,173	5 j/	...	...	...	11 j/	13

Foreign content of operations and assets of manufacturing corporations of market economies with sales of over $1 billion, 1971 (continued)

Rank a/	Company	Nationality	Total sales (millions of dollars)	Foreign content as percentage of: Sales b/	Production	Assets	Earnings	Employment	Number of subsidiary countries c/
181	Kawasaki Steel	Japan	1,162	27k/	...	...	...	14k/	18
182	Hawker Siddeley Group	UK	1,151	36j/	...	40j/	...	18j/	20
183	Borg-Warner	USA	1,148	...	...	...	...	...	21
184	Carnation	USA	1,148	...	...	...	...	...	...
185	Olin	USA	1,145	...	...	...	...	...	18
186	Idemitsu Kosan	Japan	1,145	...	...	...	...	...	...
187	Johnson and Johnson	USA	1,140	25e/	...	27e/	25d/	40d/	18
188	General Mills	USA	1,120	...	...	...	...	...	...
189	Teledyne	USA	1,102	...	...	...	...	...	...
190	Mitsubishi Chemical Industries	Japan	1,095	...	...	...	...	...	...
191	Reynolds Metal	USA	1,093	54l/	28h/	32d/	4d/	...	...
192	Usinor	France	1,092	18j/	...	...	...	...	...
193	Rio Tinto-Zinc	UK	1,087	74j/	...	82j/	71j/	71j/	20
194	Italsider	Italy	1,080	...	7h/	...	...	...	...
195	British Insulated Callender's Cables	UK	1,080	35j/	...	...	55j/	36j/	17
196	Nabisco	USA	1,070	...	...	...	...	...	16
197	Wendel-Sidelor	France	1,067	37k/	...	...	...	...	...
198	Bristol-Myers	USA	1,066	...	...	...	...	...	15
199	Combustion Engineering	USA	1,066	...	...	...	...	...	12
200	Salzgitter	FRG	1,061	...	...	...	...	...	12
201	Standard Brands	USA	1,057	5d/	...	9d/	10d/	...	26
202	Mead	USA	1,056	...	...	...	...	...	13
203	Kennecott Copper	USA	1,053	...	...	...	...	...	13
204	Norton Simon	USA	1,052	...	...	...	...	...	...
205	Petróleo Brasileiro (Petrobras)	Brazil	1,044	74l/	...	...	...	...	...
206	Ogden	USA	1,043	...	...	...	...	...	...
207	Eaton	USA	1,036	23h/	...	25h/	22h/	35e/	...
208	Henkel	FRG	1,033	...	...	...	...	29j/	8
209	Campbell Soup	USA	1,032	...	...	...	8d/	...	7
210	Massey-Ferguson	Canada	1,029	90g/	62g/	84g/	...	...	22
211	Iowa Beef Processors	USA	1,015	...	...	...	...	...	...

a/ Corporations are ranked in descending order of sales.

b/ Total sales to third parties (non-affiliate firms) outside the home country.

c/ Countries in which the parent corporation has at least one affiliate, except in the case of Japan, where the number of foreign affiliates is reported.

d/ 1964.

e/ 1965.

f/ 1966.

g/ 1967.

h/ 1968.

i/ 1969.

j/ 1970.

k/ 1971.

l/ 1972.

Source: United Nations, Department of Economic and Social Affairs: Multinational Corporations in World Development. ST/ECA/190. New York. 1973. pp. 130-137.

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