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Limitations On The Technical And Political Power Of The Multinational Corporation

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ABSTRACT

Many nations throughout the world don't understand or trust the operations or objectives of the multinational corporation. Strong nationalistic feelings often result in anxiety and suspicion in countries where multinational corporations have operations. Despite tremendous economic and technical benefits that have resulted from these operations, the political and technological influences of the multinational corporation are severely limited. This has helped to close the gap between U.S. and foreign technology, and has intensified competition throughout the world.

INTRODUCTION

Many nations do not fully understand the nature of the multinational corporation, the ways it may be organized, the purposes that it serves, and the benefits it can provide. Indeed it seems that in most parts of the world there is an uneasy truce between the corporation and the nation -- a truce occasionally broken by import surcharges, by stringent local content restrictions, or in extreme cases even by nationalization when it appears to government that the expansion of foreign business somehow threatens the nation's best interests.

More and more people in business, government, and the academic world are coming to recognize the need for an honest and open exchange of views on this subject. This paper, then, discusses one of the more fundamental and disturbing questions in the relationship -- the question of limitations on the technical and political power of the multinational corporation.

DISCUSSION

The problem is almost as old as the multinational corporation itself. The questions of the financial and political power of commercial enterprises were raised in the early days of the British Empire when, in 1600, Queen Elizabeth chartered the British East India Company -- what may have been the first multinational company.(1)

In the early 20th century, with the growth of multinational companies, more people became aware of the great potential power of these giant corporations.

After World War II, the growth accelerated. Today, of the 1,000 largest U.S. companies rated by sales, more than half could by some measure be considered multinational. The typical company has gross sales in the neighborhood of $275 million, employs about 12,000 persons, and is most likely to operate in Canada, Great Britain, Central and South America, Australia, Western Europe, or Japan.(2) Even with all these statistics we all have great difficulty in deciding precisely just what constitutes this business organization which brings both benefit and anxiety wherever it goes.

For our purposes, I think we can agree that it's a large company doing business in many countries with its foreign subsidiaries often having their own supporting staffs. The subsidiaries are usually operated on a day-to-day basis primarily by nationals from the host country. Perhaps most important, the company organizes its worldwide operations in a closely integrated way and is strongly centralized in its decision-making.(3)

Here is the basic source of the tensions between the multinational corporation and the nation-state. The multinational businessman, with his view of the world as a single large market, often thinks differently than the government official who usually has strong nationalistic feelings, and who thus approaches any international economic union very cautiously.

Before we examine the technical and political power of these companies, we should perhaps take just a minute to ask why businessmen seek to expand operations into foreign markets. The job is usually more difficult than in the home market because of differences in language, customs, and people. The risks may often be greater, or at least more uncertain, because of the country's stage of development or the possibility of political upheaval or civil unrest.

In some cases a company seeks to protect its share of the market, or at least establish a foothold before the competition becomes entrenched. In other cases, one company will follow the lead of another in the same industry to perpetuate a competitive balance already established in the home market. Also, companies who have established a profitable commercial activity with a new product or technology at home often turn to foreign markets in the hope of a similar success. In most cases the motives for developing extensive foreign operations are mixed. Certainly this has been true with my own company -- Chrysler Corporation.

With only a few exceptions, our overseas business was primarily carried on by what was known as Chrysler Export Division for more than thirty years.

In the 1950s, however, as the markets overseas began to develop following the recovery from World War II, some important economic and political changes were taking place. Many countries facing balance of payments problems were restricting imports of motor vehicles in one way or another. Others motivated by economic nationalism sought to establish their own home automotive industries. These countries imposed local content restrictions requiring that a large portion of a vehicle's components be produced locally. Furthermore, automobiles designed for the North American market frequently were not well suited to the requirements of markets overseas.

With the growth and development of these markets it became increasingly apparent that to become and remain a major factor in the world market we would have to manufacture overseas.

In some countries, we built our own factories, hired the people, and designed the products to fit local conditions. In other countries, where the market was already established and we were starting far behind the competition, we purchased stock and took a position within an existing company.

The countries in which we invested often welcomed the jobs, capital, and technology we brought. But in other cases, governments were wary of the arrival of still another American company. Mexico, for example, originally limited our participation to one-third interest in AutoMex.

We can readily understand why government seeks to control foreign investment. With its nationalistic world view, it is suspicious of enterprises that freely cross national boundaries. It is uncertain about the motives of organizations that pursue global strategies while disclaiming to represent any political cause. And at the heart of the matter, government fears it may lose control of the nation's destinies to a world corporation with its vast economic and technological resources.

Smaller nations in particular fear the potential influence of such giants as General Motors which has annual sales that exceed the gross national product of all but a few countries.

The industrial nations of Western Europe are also apprehensive of multinational corporations which now account for about 15 percent of the Gross World Product. Governments do not rest any easier knowing that the multinational corporations' contribution is growing at a rate of ten percent a year, and that if that rate continues the multinational corporations will account for 50 percent of the gross world product within three decades.(4)

An understandable concern is that the businessman will curtail operations in one country on the basis of his global balance sheet, and without regard to the social, economic, or political effects in the host country.

Some fear that the spread of the multinational company means that nationals of other countries may dominate the most essential industries -- communication, transportation, and electronics, for example -- leaving the host country under foreign control.

Beyond this, there is serious concern that the U.S. government will somehow use the multinational corporation to expand its own influence and try to impose its own political views on other nations. The French insist this is not a Gallic fantasy. They remember the events of 1964 when the U.S. government refused to allow IBM to export some specialized computer equipment to its French subsidiary. As you may recall, the United States acted because it had signed a nuclear non-proliferation treaty, and felt it would be violating its obligations if it helped France improve her nuclear capabilities.

In another incident, the U.S. government tried to prevent the French subsidiary of Fruehauf from selling its vans to another French company which would then incorporate them in products destined for mainland China.

We have also heard over the years examples of governments sending secret agents into other nations disguised as employees of a multinational corporation. And within the past few years we have been treated to the example of one U.S. industrial company in Latin America charged with conspiring to prevent the popular election of the president in a country where it operates.

There are other less extreme examples of foreign investors apparently failing to serve the best interests of the host country. In one case in Brazil, for example, two foreign subsidiaries which manufactured adhesive tape were accused of collusion in driving local competition out of business, and then dividing up the market for themselves.(5)

But while there may sometimes be reason to fear the power of the world company, experience shows that the fears are usually exaggerated. Nations have not become so completely dependent on foreign investors that they have lost all power to control their own destinies.

I realize, of course, that this does not deal with the criticism that foreign subsidiaries are concentrated in the vital industries. But even while there have been some incidents in the past, overall experience suggests that most fears about potential adverse effects may be overstated. As a practical matter foreign subsidiaries strive perhaps even more energetically and persistently than national companies to be good corporate citizens.

To earn that trust, foreign companies frequently pay wages higher than the average in the host country, offer greater job security, and refuse to be drawn into domestic political affairs.

Americans know from their own personal experience about the value of foreign investment in basic industries. You may recall that in the 19th century, European capital financed the railroads and the industrial growth of the United States.

Today's experience shows that the multinational corporation can raise the money, organize the manpower, provide the technology, and market products in a world market. Developing nations simply do not have these resources. Recall, if you will, that in Argentina, following the original Peron era, the government nationalized the petroleum industry. Within two years, the foreign companies were invited back -- at even more favorable terms -- when the government realized its shortcomings in resources.(6)

We are all familiar with the spillover from these direct investments. One good example I know of is in Peru where Marcona Mining extracts iron ore. The company started a town, provided housing, medical care, and education. It trained the Indians in the area and gave them jobs. When the government raised the question of expropriation, the Indians took the side of the company.

There have been substantial benefits in the developed world as well. In Europe multinational companies contribute annually from two to ten percent to overall capital formation, and account for five to 15 percent of its industrial capital growth.(7)

Despite the overwhelmingly favorable experience of both home and host countries, there is a widespread feeling that no nation can limit the power of the multinational corporation, control the way it uses its resources, or direct its energies. But contrary to this feeling, the economic and political power of multinational corporations are severely limited by a number of forces. And very briefly I would like to mention some of them right now.

FIRST, THE MULTINATIONAL CORPORATION IS LIMITED BY PUBLIC OPINION

In all they do, multinational corporations must be extremely careful not to take any action that might be interpreted as an affront to national pride. For example, it may be a good business practice for an automobile company to achieve economies of scale by producing stampings in one nation, engines in another, and assembling vehicles in a third country. Naturally this industrial activity benefits each of the host nations as well.

At Chrysler we have accomplished this advantageous division in the more sophisticated nations of Western Europe. And we are attempting to accomplish it in Latin America.

However, it can be far more difficult to achieve in the developing countries because of the growing spirit of economic nationalism. We have had experience with one nation that did not want to produce stampings or axles -- it wanted to build engines which requires a higher degree of sophistication. In other words, the government and people felt national honor was better served by building engines than axles.

This attitude has led to local content restrictions, which add to the costs of the automobile in Latin America, inhibit the growth of foreign business, and thus slow that area's rate of economic growth.

To assist in securing and maintaining a strong and friendly relationship with the host country, every successful multinational company that I know employs as many nationals as possible, and creates promotion opportunities not only in the subsidiary, but within the parent organization as well.

SECOND, THE MULTINATIONAL COMPANY IS LIMITED BY POLITICAL CONDITIONS

In my own company, for example, we faced a difficult problem in the early 1960s when we acquired an interest in Barreiros Diesel in Spain. Barreiros at the time was shipping trucks to Cuba, and United States law restricted any trade with Castro's government. Had this shipment by our subsidiary continued, the company's American directors who were also directors of Chrysler Corporation would have faced the possibility of stiff penalties under American criminal codes. This same situation now exists in Argentina where the Argentine government wants GM, Ford and Chrysler to ship vehicles to Cuba.

Even within an individual country, the fortunes of the multinational company are subject to the prevailing political winds. Foreign investment was a major issue in the 1970 presidential campaign in Chile. And after the election of the Allende government, the country moved ahead with a policy of expropriation. This policy was reversed only recently with the overthrow of that Marxist government.

As a practical matter, the multinational company is almost always aligned with the government in power. It invariably needs government permission to establish operations. While the multinational corporations may have economic and political power, they are not really free to exercise that power. Practical political considerations and the ultimate consequences in terms of an aroused public opinion far outrun any limited short-term benefits.

FINALLY, THE MULTINATIONAL CORPORATION IS LIMITED BY A NATION'S STAGE OF ECONOMIC AND TECHNOLOGICAL DEVELOPMENT

Modern manufacturing and marketing management requires a high level of technical knowledge and skill, and in those countries where transportation is inadequate and trained manpower scarce, the multinational company has only a limited set of investment alternatives. In the same way, profitable investment opportunities are also limited in the technologically advanced countries of Western Europe.

When my own company began truck manufacturing operations in Turkey, for example, our engineers had to design a new truck that was well within the level of skills available, and that could stand up under all kinds of conditions on the rugged Turkish roads. As part of this effort, we designed a simple vehicle for which press breaks and shears could be used to produce the body components. It was a primitive vehicle by standards of the presses we use in the United States. But in order to participate in the Turkish market, we had to simplify the manufacturing process. In other words, our whole operation was limited by the country's stage of economic development. And because that nation is still basically agrarian, a manufacturing company can have only a limited impact on the country as a whole.

The same reasoning applies to the developed nations. In Europe the only attractive investments are in fields in which the multinational company can be competitive by virtue of its economies of scale, or in which it has a technological advantage over existing competition.(8)

In the automobile and electronics industries seemingly entrenched leaders of the West are fighting off stiff challenges from the Japanese. In many of the developing countries, new local companies are eroding the once dominant position of the foreign subsidiaries in national markets.

The United States' lead in many areas of basic science is also disappearing fast. Europe and Japan are overtaking America in the export of high technology products. Beyond this, the rate of productivity in foreign countries is increasing at a faster rate than in the United States. Partly as a result of these factors, foreign-based multinational corporations are directly challenging the American multinational corporations in markets around the world. And this healthy competition necessarily restricts any single multinational corporation's exercise of its financial or political power.

CONCLUSION

International business can be a positive force for good in helping break down barriers between nations and helping raise the standard of living around the world. I hope that those who now fear the potential power of international business come to realize that the multinational corporations are restricted by a number of forces: public opinion, political considerations, government regulations, economic factors, the state of development, and competitive pressures.

Ultimately each country will have to determine for itself what its relationship with the multinational corporation should be. This can be a worrisome and difficult process. As Prime Minister Trudeau once said of the United States, "living next to you is in some ways like sleeping with an elephant. No matter how friendly or even tempered is the beast ... one is affected by every twitch and grunt." Certainly, especially to the smaller countries of the world, it may be a source of concern, perhaps even an affront to national pride, to see foreign companies provide the foundations for the country's economic and social growth. The problem of course, is that the benefits are economic and the cost psychological. The solution, whatever its final form may be, ultimately depends upon the willingness of dedicated government officials and enlightened businessmen to work together with good faith in a common effort to better the human condition everywhere in the world.

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