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Storm over the Multinationals: Problems and Prospects

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Just a few years ago, multinational enterprises were busily and profitably occupied in spreading their subsidiaries across the globe. Today, the world is awash with actions and proposals that would restrain the multinational enterprise and would alter its relations to nation-states.

There is no lack of explanations for the shift in mood and direction. Yet most explanations seem to ignore the real causes of the tension between multinational enterprises and nation-states, and most of the prescriptions seem impractical or irrelevant in dealing with those causes.

What are the roots of the tension between the enterprises and the states? Perhaps the most proximate cause has been the revolutionary shrinkage in international space over the past two or three decades, brought on by the introduction of new modes of international communication, including the radio telephone, jet air travel and the computer. The shrinkage of space has succeeded in narrowing the gap in consumer tastes between one country and the next,

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bringing aspirins and plastic pails and McDonald hamburgers into the remotest corners of the world. The same development has helped to reduce the differences among producers in different nations in their choices of machinery and industrial processes.

These developments have created the basis for a new state of inter-dependence among nations, manifested in higher levels of international trade, a greater flow of technical services across borders, and larger movements of international capital. At the same time, the shrinkage of space has provided enterprises everywhere with a new impetus for spreading outward from their home bases. Worldwide operations have offered increased opportunities for enterprises to profit from innovations or trademarks or patents, to develop new economies of scale, and to reduce their risks by spreading their operations over a number of different countries.

In the beginning, the largest enterprises in the industrialized countries, especially the leading firms of the United States, were in the vanguard of the movement. Soon, however, firms from Europe and Japan were crowding at the heels of the leading U.S. firms in the movement to foreign countries. Eventually smaller firms from everywhere followed close behind the larger. Today, the signs of multinational spread can be seen even among enterprises based in the developing countries, such as the enterprises of Mexico, India, Brazil and Taiwan.

The multinational spread of enterprises, as is evident, has generated powerful tensions and stirred sharp reactions, both in developing countries and in the industrialized nations, among many leaders in government business, labor and other activities. One reason for these reactions has been crystal clear. Many leaders have associated the growth of multinational enterprises with some of the endemic ills of the modern industrialized world itself, including the efforts of various countries to creat regional or wider areas of hegemony, the presence of corruption in high places, the pervasive waste and inequities in the distribution of the rewards, and the pollution and degradation of the environment.

The association between multinational enterprises and these universal ills has been natural enough, perhaps even unavoidable, in view of the prominence of leading multinational enterprises in the modern world. But the association is grossly misleading in one critical respect. Hegemony, corruption, waste, inequity and pollution are not the special hallmarks of the multinational form of enterprise. Although the degree and the style differ from one country to the next, these disconcerting features of contemporary life are no less prominent in the Soviet Union and Eastern Europe, where multinational enterprises are virtually barred; or in Japan, India Nigeria or Mexico, where multinational enterprises are substantially restrained.

The tensions that are associated with the multinational enterprise arise from another source as well, namely the growth of economic interdependence among national economies. As nations have been drawn together by various economic links, some national leaders have been alarmed by the restraints that these links seemed to impose upon national autonomy and national ccoice. Although the links have appeared indispensable for continued growth, they also have seemed at times to threaten some of the national goals for which the growth intended' including national stability, egalitarianism, participation and protection.

Yet a state of interdependence may be created in many ways that do not necessarily require the existence of multinational enterprises: by international trade, international licensing and international borrowing, for instance, among parties operating at arm's length. Once again countries such as the Soviet Union, India and Japan illustrate the point: their controls over the multinational enterprise have not succeeded in holding down the trend of these countries toward increasing involvement and interdependence with the rest of the world.

Nevertheless, it is not surprising that the multinational enterprise should be used as the crystallization and epitome of the trend toward interdependence. Multinational networks have special characteristics which heighten the sense of interdependence in the nations where the enterprises are implanted. Wherever such enterprises operate, the link between national economics is made tangible by the presence of an affiliate that forms part of a multinational network. Unavoidably, each affiliate includes the elements of a double personality. It is an entity created under the laws of the country in which it operates, responsive to the sovereign that sanctions its existence. Yet, at the same time, as a unit in a multinational network, each affiliate must also be responsive to the needs and strategies of the network as a whole.

The result is that each unit is inescapably the target of a set of influences that stem from many quarters: first and perhaps foremost, from the government of the country in which it is located; second, from the government of any other country that is in a position, by force or persuasion, to influence the behavior of the network; and third, from the managers of the multinational system, acting in accord with their own strategies and needs.

The multiplicity of influences to which any affiliate of a multinational enterprise is potentially exposed has preoccupied national leaders, and has created a fertile background for speculation and foreboding over their effects on the national economy. Some of that speculation has been related to fact; much of it has been very wide of the mark.[1] But no matter: the fact

1. The available research on these effects is summarized in *Storm over the Multinational op. cit.*

that an entity inside the gates is exposed to the direct commands of outsiders is a deeply disturbing fact.

Even as national leaders have been disturbed by the growth of multinational enterprises, many of them have sensed that their bargaining power has actually been increasing in their dealing with such enterprises. Observers have tended to attribute this seeming shift in bargaining power to a variety of causes. Some attribute it to an increasing world demand for certain key materials, such as oil or iron ore; some to an increasing political cohesion among the countries that are determined to face down the multinational enterprise.

As I see it, however, the increase in bargaining power of national governments, where it has occurred, is typically due to the same factors that have created the growing state of interdependence. With the shrinkage of international space and the improvement of international communication, some of the capital, technology, or access to markets that multinational enterprise have offered to host countries has been matched by rival offers from other sources. Sometimes the rival offerer has been another multinational enterprise, prepared to perform the same economic function; but sometimes the challenge has come from an independent licensor of technology or from a lender of funds. Wherever rival sources have appeared, their rivalry has diluted the unique strengths of any single enterprise and has weakened its bargaining position.

The realization of national leakers that their bargaining position might be increasing in individual cases, however, has proved cold comfort. Over all, the role of multinational enterprises as a class has been growing, not declining. And in their efforts to deal with that growth, national leaders have cast about for countermeasures which might hold the multinational enterprise in check.

II

Although the tensions associated with multinational enterprise have been similar from one countrp to the next, the leaders of the developing countries for obvious reasons have experienced far higher levels of tension than have those in the industrialized nations. The efforts of the developing countries to deal with these tensions, therefore, have had some distinctive characteristics.

One clear line of policy in many developing countries has been to provide support to local public and private enterprises in their efforts to find united sources of foreign capital and technology, and to develop their own channels to local and foreign markets. With that objective in mind, governments have imposed special taxes on the income of foreign-owned subsidiaries,

ceilings on license fees paid by local licensees to foreign licensors, limitations on foreigners' use of local credits, requirements for the sale of equity to local interests, and so on.

The vigor with which developing countries have applied such regulations has generally been influenced by the strength of the bargaining position of the multinational enterprises they confronted. Multinational enterprises that had nothing unique to offer or to withhold at the time when the pressure was being applied have been especially vulnerable. But those with special strengths could usually count on seeing such regulations applied with caution and restraint.

In spite of the fact that governments of developing countries have been able to extract added benefits from some of the subsidiaries of foreign-owned enterprise, their uncertain progress toward autonomy has left important groups in these countries preoccupied and frustrated. Accordingly, even as these countries have pushed their efforts at the national level, they also have tried to improve their positions through joint international action. The multinational enterprise, therefor, has figured centrally in the broader North-Soutn confrontation.

One international effort, widely advertised for its apparent effectiveness, has been focused in the Organization of Petroleum Exporting Countries. OPEC's role in the quadrupling of crude oil prices in 1973 and 1974 has been universally interpreted as the sign of a vast shift in power. With the passing of time, however, early impressions regarding the extent of the shift have been modified. First, oil in the mid-1970s proves to have been a rare case, which rested on a special set of economic factors. Second, OPEC's seeming success required first of all an undermining of the powers of the established leaders in the oil industry, a condition which was achieved mainly by the entry of additional international oil companies. Finally, the OPEC countries do not seem to have feed themselves from the need for dependence on the leading international companies. OPEC, it appears, has not yet acquired the power to dominate the international markets by brute force alone.[2]

Another group effort, antedating OPEC, also is of interest in assessing the speed and direction of chang. This was the adoption in 1969 of Decision 24 of the Andean Pact. The Decision represented an extraordinarily bold efiort on the part of five (later six) countries of Latin America to pool their economic power in a joint policy toward multinational enterprises. The policy itself seemed to break new ground in many different respects. In principle it denied

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2. For a strongly dissenting evaluation which assigns a much stronger role to OPEC, see D. A. Rustow and J. F. Mugno, *OPEC: Success and Prospects*, New York; New York University Press (for the Council on Foreign Relations), 1976

to foreignowned enterprise the advantages of the incipient free trade area among the Andean pact countries, unless the enterprises committed themselves to a divestiture program that would place majority ownership and control in local hands. Foreigners' participation in public utilities, the communication industries, banking and raw materials was to be limited. The contractual ties between foreign parents and their local subsidiarres, such as licensing agreements and loans were to be restricted in such a way as to prevent the draining off of added profits.

The actual application of these extraordinary provisions, however, has been quite limited. Chile, for instance, disregarded the provisions during most of the period of its membership, then withdrew from the Pact altogether. Others, including Colombia, have made the most of the Decision's various loopholes. Peru, which once seemed determined to enforce the extraordinary provisions, eventually veered away from a policy of strict enforcement. The multinational enterprises themselves have muted their early positicn toward the Decision, seemingly content on the whole to let the divided interests inside the signatory countries hold its restrictive provisions in check. Nothing is quit the same as it was before the Decision was adopted; but neither is anything very different.

The developing countries have been pressing on still another international level, one that more comprehensive and more universal. In the various organs of the United Nations, the so-called Group of 77-actually representing the hundred or so developing countries of the world-have established a common front on the subject of the multinational enterprise, one that has been remarkable for its cohesiveness and strength. On issues relating to such enterprises, political enemies have buried their differences and voted en bloc-Iraq with Syria, Ethiopia, Sudan with Libya, India with Pakistan, Zaire with Ahgola, Brazil with Cuba, and so on.

In order to hang together, however individual countries have had to disregard vast differences in ideology and interest among them. Accordingly, the common position has been limited to a list of demands to be made on a common adversary. Capital, technology and access to markets, the group agress, should be provided from the industrialized countries on easier terms. The industrialized countries shoule recognize the inherent right of the developing countries to preferential terms in access to technology, and should use governmental powers to compel their enterprises to offer such terms. Moreover, the industrialized nations should finance a large fund for the stabilization of commodity prices and they should acknowledge their joint and several responsibilities to do everything necessary to help in all other respects. Meanwhile, each developing country should remain free to take any further measures that in its opinion would contribute to its national objectives.

At the same time, various U.N. organs have been offering facilities to the developing countries intended to improve their position in dealing with their multinational enterprises. A Center on Transnational Corporations, set up in 1975, promises not only to contribute to the stream of information regarding such enterprises, but also to provide direct technical assitance to developing countries that are faced with difficult problems in regulation or bargaining. And staning in the wings are a half-dozen different projects for imposing codes of conduct of various sorts upon the multinational enterprises that operate in developing countries.

So far, the collective demands of the developing countries have been exceedingly general. Most of them are aware that efforts to define their interests in more explicit terms would run the risk of exposing the underlying conflicts, both within the borders of each of them and counted on mainly for their atmospheric effects, to stiffen the systems of national administration and national regulation in some developing countries. Meanwhile, individual countries continue quietly to offer tax holidays and preferential exemptions from local regulations to many prospective foreign investors. Meanwhile, too, multinational enterprises continue to protect their positions in developing countries by appearing indispensable, and where their indispensability is on the wane, to bolster their bargaining position through the development of new capacities and new functions.

All told, developing countries may gain a little from their international efforts, by improving their negotiating position a little faster than otherwise would occur. Nevertheless, for most countries, interdependence in some form or other seems likely to grow, not to decline. Whether it is accompanied by a sense of inferiority and dependency or by a sense of equality and mutuaiity will turn mainly on the internal capabilities and self-perceptions of the leadership in each country.

III

The problems of the industrialized countries in dealing with the multinational enterprise are not wholly dissimilar from those of the developing nations. Most industrialized countries find themselves balancing the economic contributions of these enterprises against the need for a sense of national control. In most industrialized countries, too, thers is the problem of reconciling the diverse interests of the various domestic groups affected by the operations of these enterprises. Now and then the strains have been strong and visible.

Take the case of France in the 1960s. Under the leadership of General de Gaulle, the objective of holding the Anglo-Saxons, especially the Americans, at arm's length and of forging an independent political course for France became a major national objective. France

withdrew its contingent from NATO's armed forces, vetoed Britain's entry into the Common Market, and flirted ostentatiously with the Soviet Union. Yet all through that period, under a case-by-case licensing procedur by the French bureaucracy. the subsidiaries of firms from the United States. Britain and the rest of Europe were being admitted liberally into the French economy.

The reaaon for the disparity between France's objectives and France's policies, quite simply, was that tee price of independence had grown so high. Recognizing the costs of an autarkic policy, France had opened up her borders to the goods of her European neighbors and to other countries including the United States. If France excluded the foreign-owned subsidiaries, therefore, she would not be excluding their products; these could still enter the French market as imports . Besides, the establishment of foreign-owned subsidiaries inside France was useful in other ways. A Ford Motor Company proposal to set up a plant in Bordeaux mobilized a wave of support from local political interests; an offer of General Electric was used to rescue a sick Machines Bull; an offer of Honeywell to rescue General Electric; and so on.

The Canadian case carries similiar overtones. From the 1950s on, the growing concern of many Canadians over the threat of being swamped by the oversized economy to the south could be seen in a steady stream of official and unofficial studies and reports. Yet the most potent step taken by the Canadians until the 1970s was one that was calculated to expand the role of mulatinational enterprises in a key Canadian industry, not to contain it. This was Canada's initiative in 1965 supporting a North American Automotive Agreement, a project that integrated the Canadian subsidiaries of U.S. automobile firms more firmly and extensively into the U.S market. The explanation for avoiding a restrictive regime was the same as that of France. Any measures taken against the steady tide of foreign investment generally carried some risks to specific Canadian interests. The Canadian need for capital and technology, for instance, seemed insatiable. Besides, an irrepressible rivalry among Canada's semiautonomous provinces complicated the mix. Francophone Quebec, unwilling to be outdistanced by the Anglophone areas, was eager to invite multinational enterprises in. And the relatively poor maritime provinces of Nova Scotia and Newfoundland were determined to capture a share of the prosperity of the provinces surrounding Great Lakes.

Although the United States is commonly thought of as the main source and supports of multinational enterprises, U.S. policies towards the multinational enterprise can be interpreted in much the same light. U.S measures in the field of capital suport controls, trade and taxation, affceting the multinational enterprise, have had to be tailored to the inescapable

fact that some internal interests of the United States see themselves as served by restrictive measures in these areas while other internal interests see themselves as hurt by such measures.

Multinational enterprises now play a large role in the national economies of most industrialized countries. As long as those countries maintain representative governments, the interests of those enterprises will-and on any theory of representative government, should-carry considerable weight. In the decade or two just ahead, those in the industrialized countries who see their interests in strengthening the individual states will continue to struggle with those who see their interests in operating globally. Part of the struggle will take place inside each nation. But part will surface in international organizations.

The organs of the European Economic Community, for instance, have struggled Valiantly to secure the adoption of a European program tailored to special problems associated with the multinational structure. Among other things, the proposals cover problems of taxation, employment, competition and disclosure. But so far, progress has been insignificant, as both the multinational enterprises and the national governments have tended to resist any relevant action.

The Organization for Economic Cooperation and Development, on first blush, seems to have made a little more progress in taking the edge off some of the tensions among industrialized countries that are associated with the expansion of multinational enterprises. The OECD organization has helped to create a model bilateral tax treaty, and has developed consulting mechanisms that could head off international disputes over the application of national security controls and antitrust laws. But observe how that result has been achieved. The bilateral tax treaties have consisted mainly of agreements on the Part of both sides to pull back from levies and practices that might pinch business enterprises too painfully. The antitrust consulting procedures have also led to a pulling back; they have reduced the probability that any country would unilaterally apply its national antitrust laws, but they have not introduced in their place an effective way of dealing with the problems of international restrictive business practices. As for the consultation procedures on security controls, these have in general mitigated the force and the reach of restrictive U.S, measures and have Placed the foreign subsidiaries of U S. firms nearer to a parity position with their foreign competitors; but they have not improved the international machinery for dealing with the security issue. The tension has been reduced mainly by nations' agreeing to pretend that no common international problem existed.

One OECD-sponsored exercise that has taken a more affirmative approach is a set of guidelines adopted by OECD governments in 1976 which OECD member governments

"jointly recommend to multinational interprises operating in their territories". The adoption of the code is voluntary, and its application unenforceable. But the enterprises that adopt the recommended guidelines will presumably be entitled to an extra modicum of goodwill from host governments. Under the guidelines, the multinational enterprises will publish information about their global operations that is somewhat more ample than such enterprises customarily provide, notable some added data by product line and by geographical area. The enterprises will undertake to avoid practices that might have anticompetitive results, such as buying up competitors and imposing discriminatory prices on buyers. They will provide information that national tax authorities might require about the operations of their networks in other countries. And they will adhere to a set of practices in labor relations that for some firms might represent a change from existing practices. For instance, they will undertake to try to mitigate the effects of a plant shutdown, to avoid threats to shut down an existing facility, and to negotiate in good faith with employee groups.

On the whole, the code can be seen as a cautions, evolutionary step in a long process of accommodation between the needs of the nationstates and those of the enterprises. But it has almost ostentatiously avoided any recognition of one of the basic sources of the tension, namely, the fact that any affiliate in a multinational network must be responsive in some degree to the imperatives of a global strategy, and that any such affiliate-whether parent or subsidiary-is exposed in some measure to the influences of more than one government. Codes on the OECD pattern, therefore, still leave largely unresolved most of the underlying problems.

IV

If history could be counted on to move in reasonably straight lines, the outlook for managing the tensions between multinational enterprises and national interests would not be altogether foreboding.

First of all, some trends are visible that could very well reduce the sharp differences in viewpoint between the developing countries and the industrialized countries. Some countries that now place themselves in the developing category-Brazil, Mexico, Iran, India and half a dozen others-are changing rapidly. These may find themselves supporting, in their national interest, policies that are not unlike those of the industrialized nations. That shift could occur as local enterpreneurs in such countries increase their capacity for assembling capital and technology and for building up effective access to their foreign markets. It will be accentuated even further

as the local firms move ahead with the establishment of their own foreign operating subsidiaries. In that even, it is true, the search of these countries for their particular Holy Grail will be set back-- their sense of autonomy will be reduced and their elbow room will shrink. But a few nations have demonstrated their capacity gradually to abandon that goal without enduring trauma, as evidenced by the relatively relaxed state of the Scandinavian countries, the Netherlands, and Singapore.

Most developing countries, however, are unlikely to give up their persistent search for autonomy and choice. As long as they lack the internal resources to fill their compelling need for capital, technology and market access, they will continue to feel threatened by their need to draw on foreign-owned enterprises. With an improvement in the capacity of those countries for administration and negotiation, the sense of tension may conceivably be held in bounds. Moreover, the decline in tension could be accelerated a little if-or, perhaps, as-the role of the multinational enterprise is determined and constrained by international commodity agreements negotiated in the raw materials area. In addition, managerial contracts and other ambiguous arrangements with foreign enterprises may also provide the governments of developing countries with a sense of increased control over the multinational enterprise. The real role of the multinational enterprise may not decline in critical respects, such as control of the channels by which a developing country gains access to foreign markets. But the tone and form of participation on the part of developing countries could change sufficiently to take the sharp edges off the tension.[3]

As for the role of multinational enterprises among industrialized countries, a projection that is based on the assumption of gradual change has to confront two linked problems: one is the outsized proportions U.S. economy the other, the unfinished state and uncertaiu future of the process of European integration.

As long as the U.S. economy continues to enjoy the relative advantages associated with sheer size and diversity, it is difficult to picture a set of altogether tranquil relations among industrialized countries on problems relating to the multinational enterprise. In the field of high technology, the buying and financing power of the U.S. government will serve as a constant irritant. The lesser vulnerability of the U.S. economy to the effects of transactions across its borders will add to the irritation. Finally, the propensity of European and Japanese firms increasingly to set up subsidiaries in the U.S. market will add to the worries of governments in the

3. David N. Smith and Louis T. Wells, *Negotiating Third-World Mineral Agreements*, Cambridge, Mass.: Ballinger, 1975, pp. 37–53.

home countries, as some of the managerial attention and financial resources of these firms is diverted to the U.S. market.

If the U.S economy were persistently to gain advantages from its relative size and relative autonomy, Europe might conceivably be compelled to respond. In that case, defying the standard prediction of present-day observers, European governments might find themselves pushed to a state of integration which was capable of matching the advantages that the U.S. economy provides. That would require a considerable movement in the direction of a unified European policy toward high technology, a unified monetary area, and a capacity for effective negotiation with outside countries.

If Europe should develop that capacity, however, a great deal would depend on how the capacity was used. Bargaining between a united Europe and an outsized America could produce some sort of consensus on critical issues and some new degree of tolerance for their growing interdependence; or it could produce a new level of hostility among equally matched adversaries. If the new matching of power led to easier consensus and greater tranquillity among the industrialized countries, it could establish a basis for renewed leadership in the world. In that case, leaders in the developing countries would probably see the partnership of the rich as a threat foreshadowing a new hegemony. A reduction in one area of tension would then be counterbalanced by a rise in another.

V

History, however, has a habit of following a crooked course. New factors, not in the gradualist's predictive model, are bound to appear. Although factors of this sort cannot all be foreseen, a few are already to tangible that they merit a word or two of speculation.

One of these is the possibility that command economies, such as the Soviet Union, may find themselves compelled to create their own crop of multinational enterprises. No crystal ball can be expected reliably to project the full consequences of such a development. What is clear is that whenever the multinational enterprise is thought to be linked directly of the decision-making apparatus of any government, it is likely to prove a particularly troublesome institution for other nations to abide. The saving grace that has led governments so far to tolerate the foreign subsidiaries of state-owned enterprises, such as the subsidiaries of British Petroleum, Renault and Volkswagen, has been the obvious disarticulation of those interprises from the apparatus of government. But how far thattolerance will go is a highly uncertain question.

Another source of disruption could originate in the United States. Studies of the attitudes of American leaders in the latter 1970s seem to be agreed on a number of key points. Such leaders seem to accept the fact that the nation-states of the world are headed for an increasing degree of interdependence and that the U.S. economy will be involved in that trend along with all the others. But another powerful element is found in U.S. thinking, a mood rather than a projection. There is a sense of pique and resentment, a feeling that the rest of the world is using Americans as a punching bag for their own inadequacies and frustrations. Americans are disconcerted by the fact, for instance, that the specter of the CIA is trotted out by foreign commentators as the likely cause of any misfortune, from poor crops and adverse trade balances to earthquakes and train derailments. The resentment is coupled with a strong sense among many of the U.S. elite—a sense not altogether inconsistent with the evidence—that most countries need the cooperation of the United States more than the other way aroud.[4]

From the viewpoint of many Americans, therefore, it is tempting to consider a policy in which the United States uses its brute bargaining power unilaterally, through channels of its own choosing, and reduces its participation in institutions such as the General Agreement on Tariffs and Trade, the International Monetary Found, the World Bank, the International Energy Agency, the various international commodity agreements, the Organization of American States, and the United Nations. The overseas interests of U.S. enterprises, according to this view, would be protected not by the forbearance and cooperation of host governments but by the economic and political clout of the United States, and whatever the effects might be on the welfare of the world at large, U.S. welfare might conceivably be improved.[5] If the United States should decide to adopt that line of policy, a new volatile element would be thrown into the mix, and projections about the multinational enterprise could prove very wide of the mark.

But the most likely sources of major discontinuities come form the developing world. On the whole, the developing countries do not have quite as much capacity for upsetting the institution of the multinational interprice as do the leaders of the industrial world. For one thing, multinational enterprises still do over two-thirds of their business in the industrialized countries; for another, the multinational enterprises are in a position to bargain more effectively with a hostile developing country than with a hostile industrialized nation.

4. See B. M. Russett and E.C. Hanson *Interest and Ideology: The Foreign Policy Beliefs of American Businessmen*, San Francisco: W. H. Freeman 1976, p. 96.

5. F0r surveys of U S. leadership opinion that closely reflect this mood, see *FPA Outreacher*, Foreign Policy Association, New York, 1976; also Russett and Hanson, *ibid.*, pp. 77. - 71.

One strong possibility is that the objective conditions which helped to propel the Group of 77 into a position of seeming strength would reverse themselves. It took a brief, spasmodic shortage in some key raw materials during the early 1970s to reveal that the developing countries were in a position to bargain more effectively with the strength provided by their resources. But the history of capital-intensive standardized products, such as oil, metals and chemicals, includes periods of recurrent surplus. And the decline in the concentration of the world's industrial struoture in these products, plainly indicated in various studies, carries powerful implications for the future behaviour of the markets in these products, including a decline in the power of the leaders to hold up prices if a period of surplus should develop.

Not only has the number of producers in standardized products been growing at a rapid rate; many of the added producers are new to their markets, and are casting about for dependable outlets. In the Middle East, Latin America and elsewhere, state-owned enterprises are appearing in petrochemicals, chemicals, aluminum and copper, determined to establish a place in world markets.[6] In some cases, these enterprises are assiduously cultivating the markets of socialist countries. But these enterprises are usually aware of the fact that socialist countries make major decisions to import export or shift their trading partners through a central mechanism; accordingly, they are capable of even more abrupt shifts in their trading patterns than capitalist countries. As a result, not many of the new producers are willing to place all their eggs in one socialist basket, and many have been pushing to find outlets countries as well.

The risks that the new sellers may prove to be a destabilizing market force are increased a little by the fact that a considerable proportion of them are state-owned and state-managed. In spite of an occasional exception such as Saudi Arabia, the state enterprises of most countries commonly have stronger reasons than private enterprises for continuing to operate at high levels of output in the face of a softening in world demand; mines operated by state-owned enterprises, for instance, cannot easily cut back on production if employment will be affected.

6 See for instance, L, G; Franko, "Multinational Enterprises in the Middle East", *Journal of World Trade Law*, vol; 10, no; 4' Agust 1976, PP.307—333; Ralph Landau and A. I. Mendolia "An American View of Chemical Investment Patterns in the Era of High Energy Costs," *Chemistry and Industry*. December 6,1975, P.1011; "Large Project in Mideast Getting Second Look," *Business Japan*, August 19 6, P.23; and R. B. Stobaugh, "The Evolution of Iranian Oil Policy," in *The Crown of the Pahlevis: Modernity and Tradition in Iran* ed. George Lenczowski, Palo Alto: Hoover Institution Press, 1976.

If sharp price declines actually develop, the declines no doubt will stimulate proposals for intergovernmental commodity agreements. But various factors are likely to interfere with the prompt consummation of effective agreements. One of these is simply the increasing number of producers involved. Another is the disparity in the viewpoints of the producers; the state-owned enterprises of the developing countries, freshly hatched with a mandate to achive independence for national economies, cannot be expected to see eye to eye with the old dominent leaders from the industrialized countries.

Moreover, in products such as aluminum and copper, producers headquartered in the developing countries face the disconcerting fact that the multinational enterprises established in the industrialized countries are making some progress toward sloughing off their reliance on supplies from "unsafe" sources. In oil and its derivatives, the outlook is more problematic; all depends on effects that higher oil prices may be having upon the long-run demand for oil, as well as on the size and timing of production from the North Sea, the U.S. East Coast, China, Mexico, the U.S.S.R. and other such sources.

In any event, if the threat of surplus develops, the instinct of the leaders headquartered in the industrialized areas will be to try to secure a favored position for their "safe" supplies within the markets they have historically controlled. Since most of them maintain Processing and distribution networks on both sides of the Atlantic, their intersets could easily lead them to press for a protected area whose outer bounds covered the markets of the industrialized world. Access to the area would be available first of all to the products originating inside it, and secondly to favored suppliers from the developing countries.

The history of international commodity arrangements offers plenty of illustrations of patterns such as these. In sugar, for instance, the U.S. market has been linked by quotas mainly to Latin America, Britain's mainly to the Commonwealth, and Europe's mainly to excolonies in Africa. And in oil, the U.S. market has been regulated in times of surplus on a similar principle.

That threat, or something like it, is one major reason why Saudi Arabia, Iran, Kuwait, Yugoslavia and others have been willing to consider entering into joint ventures with Western firms. As a strategy, this approach may well pay off for the developing countries that pursue it. At the same time, however, these links will tend to differentiate the interests of the different suppliers from developing countries and will weaken their ability to hang together in an effective bargaining bloc.

If the negotiating position of the developing countries should visibly deteriorate, some of them may be tempted to deal with their problems by imposing a higher degree of central control upon the national economy, emulating the Soviet pattern. But the success of such a strategy depends on a strong capacity for organization and a strong technical nucleus, such as a China is said to have; and so far these qualities are exceptional among the developing countries. In recent years Indonesia, Egypt, Ghana and Peru, among others, have had to pull back from their highly centralized systems in order to allow their economies to operate. In pulling back, they have tried to make a place for foreign owned enterprises to operate, on one basis or another, inside the national structure.

Because the alternatives are so costly and so uncertain, the developing countries that limit the role of the multinational enterprise in numerous ways are unlikely to exclude it. The ability of such enterprises under various arrangements to use and reuse from one country to the next their information, access to markets, and trade names may prove to be relatively unimpaired. Accordingly, the sense of nakedness and uncertainty on the part of many developing countries may well continue high.

VI

Neither the multinational enterprise nor the nation-state shows much evidence of losing its vitality in the world economy. Multinational forms of enterprise are still emerging in various forms in response to every new advance in international communication and transportation. And national programs intended for social betterment are still being hatched at a prodigious rate. At the same time, every few of the programs and policies presently being proposed seem likely to reduce the tension between multinational enterprises and national interests. The developing countries are still concentrating on the strategy of getting more, to the exclusion of other objectives. The leaders of the industrialized countries have learned to talk about a new state of interdependence, but they have not yet assimilated the extraordinary implications of the conditions they profess to recognize. And the managers of multinational enterprises for the most part are still at the stage of hoping that the tension will somehow go away.

One necessary condition for constructive action is to sort out some of the problems that are only partially related to the multinational enterprise, and to recognize that these problems cannot be treated very effectively by any program that is targeted at the multinational enterprise alone. The problems that arise out of the growing interdependence of nations illus-

strate the point. Whatever benefits multinational enterprises may claim to bring to any country, they do contribute in various ways to reducing the economic meaning of national boundaries. Nevertheless, the multinational enterprise is not the prime cause of that interdependence. As was suggested earlier, the increased efficiency of the means of international communication has created the trend, and the multinational enterprise is much more a manifestation of that fact than a cause. But there is a widespread belief to the contrary, and a resulting expectation in many countries that exorcising the multinational enterprise will greatly alleviate a gnawing sense of interdependence and vulnerability. As long as that misapprehension exists, it will be difficult to focus on the problems that are genuinely due to the multinational structure of enterprise.

The same point can be made with regard to some of the other major worries that are widely shared by national leaders in many countries—the emptiness, the corruption, the inequities and the ugliness that so often accompany the industrializing process. Here again, it is commonly assumed that these problems will be greatly reduced by a program of control over the multinational enterprise. Yet as I read the evidence, the disposition of any enterprise to corrupt, pollute or waste has not been greatly affected by whether an enterprise is widely multinational or narrowly national, state-owned or privately owned.

Nevertheless, the world's policymakers are right when they identify certain problems directly with the multinational structure of enterprise. Most of these problems stem from the ineluctable fact that the multinational enterprise is exposed simultaneously to various national jurisdictions. Accordingly, any government which is in a position to seize some sensitive part of the anatomy of a multinational network has the potential for influencing the rest of the network as well; when Mexico demands that its foreign-owned automobile subsidiaries export their components to other markets, Sao Paulo and Detroit are bound to suffer. At the same time, any action or reaction that emanates from the headquarters of the multinational network, whether or not it was induced by its home government, generally has repercussions beyond the jurisdiction in which the headquarters sit.

The problem of multiple jurisdictions, as it turns out, adds new complications to practically every issue that nations would normally classify under the general heading of industrial policy. These include, for instance, policies that are aimed at creating jobs, reducing in equitable income differences between classes and regions, enscuring the availability of scarce national supplies and the benign functioning of markets, securing tax revenues, promoting consumer safety, protecting the environment and safeguarding national security. The very breadth of the agenda causes policymakers to flinch and draw back.

Not only is the agenda unusually broad; it is also unusually sensitive. Subjects such as taxation, subsidy, competition and security controls go to the the heart of domestic politics. Inside any nation, the struggle between competing interests--between labor and capital, or between rich taxpayer and poor taxpayer--is settled by a variety of devices: by diktat, by law by court process or by strike. When an international dimension exists in the war among the interests, cutting across nations no obvious machinery exists for settling the clash; the numerous transnational links that have been developing among likeminded groups in different countries, such as the links between business groups and the links between labour unions situated in different countries, are not yet strong enough to carry such heavy freight. Intuitively, therefore, national policymakers find themselves pulling back from an international approach to the multinationalizing trend.

Although the variety of subjects that appropriately belong on the agenda is somewhat appalling, many of them call for a somewhat similar international approach. One common need is to disentangle conflicting national jurisdictions, so that the unilateral actions of individual states will not have the effect, often inadvertent and unintended, of harming other states. That is what the OECD has sought to do, for instance, in its efforts to limit the extra-territorial reach of antitrust actions by national authorities. A second common need is to find a way for securing agreement among national authorities concerning the nature of the public action that may be needed.

Although these are the obvious needs, very few countries are in a mood to discuss those needs in the terms that I have suggested here. Certainly not the developing countries. One or another may be willing to bargain hard with individual enterprises, or to struggle over the terms of a new international commodity agreement; but, for the present, they are unable as a groups to bargain realistically over a new regime that would reduce the tensions associated with the multinational form of enterprise.

To the extent that international cooperation is conceivable at this stage, therefore, it consists largely of cooperation among the industrial countries. For them, the means of achieving the disentanglement of national jurisdictions would probably vary according to the subject matter. In some problem areas, it may be sufficient for sovereign states to enter into agreements which explicitly limit their jurisdictional reach; security controls, for instance, can conceivably be dealt with in this way. But other areas will require a set of common rules that shape and limit the application of domestic law, as well as ongoing institutions to administer the rules. In-

the field of taxation, for instance, avoiding a destructive clash of jurisdictions could require some agreed rules on how to calculate the profits of the multinational network, as well as rules on transfer prices and on the allocation of central administrative costs.

But disentangling national jurisdictions will not be enough in many cases. Affirmative international action also may be required In the field of restrictive business practices, for instance, nations will have to go beyond a commitment to keep from treading on one another's toes, and will have to find the standards and tte machinery for a collective response.

So far, the initiatives of governments have been trivial in relation to the issues. One cannot altogether overlook the modest initiatives of multinational organizations, such as the disclosure program of the U.N. Centre for Transnational Corporations and the OECD voluntary code. But they seem only marginally relevant to the problem of disentangling and redirecting national jurisdictions as they bear on the multinational enterprise. Besides, the effect of there initiatives is diluted even further by the insistent confusion over their purpose-whether that purpose is to deal with the special problems associated with multinational enterprise, or the more general problems of an industrializing society.

In the end, some nations–even developing nations–may eventually be persuaded to face up to the problem of uncoupling and remeshing their national jurisdictions in the handling of multinational enterprise problems. If they do, the progress is likely to come from the realization that failure to act will reintroduce,in a new and virulent form,the beggar-thy-neighbor policies that were so prevalent in international economic relations forty years ago. The fact that any government can exert some influence on all the units of a multinational network opens up possibilities for economic aggression and counter–aggression that have only begun to be exploited. Mexico's insistence that foreign–owned automobile plants in Mexico should export their components to other markets could be countered by the insistence of other governments that their affiliates should be the ones chosen for that purpose. The demand of home governments that parents assess their foreign subsidiaries for a share of the network's central costs of research and administration could be countered by the insistence of other governments that no such payments should be made. The conflict of national wills could produce a stalemate for governments. Meanwhile, the cutting edges of the conflicting jurisdictions, pushing into the structure of the multinational enterprise, could produce a pattern of erratic and evasive actions in such enterprises that no government intended and that served no nation's interests.

In times past, nations have sometimes managed to head off a threatening escalation in the dangerous game of beggar-thy-neighbor. Thanks to various organizational agreements, for instance, tariff wars and competitive devaluations no longer pose quite the threat that they did in decades past. To be sure, the challenge of framing an acceptable international regime for the multinational enterprise is more formidable in many ways than the challenge posed by tariff wars and devaluations.

Moreover, at this juncture it is hard to detect among the leaders of government and business any disposition to begin serious work on building an acceptable international regime. But the time for constructive response has not yet run out. And these leaders may yet be persuaded that the existing strands of national and international policy add up to a situation that could inflict injury on all the interests concerned.