NOTES

The Impact of The Multinational Corporation On Host Countries.

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The current debate surrounding the multinational corporation is not confined to the U.S. Increasingly,host countries (countries in which direct investment is made)are questioning the cost -benefit of direct investment by foreign companies, particularly,U,S.Co`s Although the host countries are not equally familiar with multinational firms ,they all face the same dilemma. There is no doubt that there are social, economic and even political benefits to the host country. For example it is unlikely that the gross world product of about three trillion dollars would be as high as it is had it not been for the $450 billion contribution of MNC`s-$ 200 billion by U.S MNC's alone (1)

All Countries,whether developed or undeveloped,require ever increaing quantities of capital to provide jobs.Also to produce goods and services for the rapidly growing world population. The primary source for capital investment and employment today is the private sector,especially the MNC. Between 1985 -1990 world-wide employment by U.S. MNC`s increased by 34% or by over3.0 million employees.At the same time,employment by European and Japanese MNC`s increased by 34%(2.3 million employees).In fact ,employment and goods,investment and services are provided to host countries with greatly needed technological and managerial expertise

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.This makes for more efficient allocation of resoures .It may help to improve the host country`s balance of payments and political stability .Despite these benefits ,host counties are becoming apprehensive about the potential threat posed by multinational firms. Host countries feel that the economic.political and social power of MNC`s will weaken their control over internal and external decisions .

HOW MNC`S ARE PERCEIVED BY HOST COUNTRIES:

(1) Impervious to national frontiers.[2]

(2) Having the ability to acknowledge one political jurisdiction here and another there such as influence,tax revenue,the balance of payments,labours,engineers and managers.

(3) Potentially being contolled by the parent company`s govemment,it can exert pressure on subsidiaries in their counties for political purposes.

This concept of MNC`s has led most host countries to be afraid of losing their sovereignty They generally feel that the affiliates may tend to shift the focus of decision-making from the host to the parent country(country in which the headquatrers of MNC is located).They also point out that the economic interests of the MNC are not always the same as their own the reason is because of their size and access to foreign financial markets .MNC`s are believed to be able to "by -pass"and under-cut"the economic,fiscal and monetary policies of the host country.

Despite the fears expressed by host countries that multinational corporations constitute a threat to national sovereignty, it is difficult to determine whether this is really true[3] Shelly Williams speaks up for the companies :"It is in fact the company that is disadvantged in its relationship with the state. The company`s set of operational assumptions is generally clear, the mandate from its constituency is obvious-maximize overall profits and try to limit overall costs-and its very existence is dependent on the beneficence of the nation`s law[4].

Available data shows that there have been some instances where multinational corporations have evaded the national policies of the host country However,those who say that MNC is a threat to national sovereignty overlook some "basic facts of life"about international business.For example:

(1) The multinational corporation commits both capital and managerial sources to establishing an operating subsidiary in a foreign country. It is done with the idea that the subsidiary is a long -run investment which will generate a long-run profit to the firm. The risks of new investment as well as the start up costs prevent the MNC from investing for the short run.

(2) The ability of MNC s to close down and move expensive plant equipment is limited . Before this would be done it has to reach some agreement with the host country for every step to be taken .

(3) Whatever the nationality of the parent company,subsidiaries of MNC `s are under the authority of the host country. The subsidiaries must comply with the local laws or be subject to legal action and even nationalization` Therefore, the subsidiaries,in effect are affected by the laws of the host country .

According to the above facts ,the question of the MNC threatening a country's national sovereignty has been overstated by both developed and underdeveloped countries.

What controls are needed on direct investment by foreign companies to preserve the economic sovereignty of the host count [5] ?The policies adopted by host countries for control purposes seem to depend on :

(1) The extent to which the economy of the host country is

integrated, planned and controlled.

(2) The degree to which the host country is to be threatened by direct foreign investment. The policies being used by host countries may be demonstrated by looking at some of the policies of Japan, Canada and the U.S. Previously, fear of foreign economic domination led Japan to restrict all direct investment by foreign firms.

In August, 1971, all except seven industries have been approved for foreign ownership of Japanese firms of up to 50% Despite that, foreign investment by MNC's is tightly controlled even in the 50%. This is observed through complex licensing and screening process. Further, the remittances of profits, interest payments on foreign loans, and dividends all require governmental approval (6) .

ADVANTAGES OF MNC's FOR LESS DEVELOPED COUNTRIES :

(1) Upgrading labor : At the most basic level is the corporation that teaches a man to do a job. Training is both formal and informal ranging from class-room sessions to on-the-job training and practice.

"Many companies have entered less developed markets as profit makers by design, only to become educators by circumstances"(7) Actually, there is little doubt that MNC lead to improvements in upgrading of worker's skill through corporate education programs, seminars, and on-the-job training.(8)

(2) Training of suppliers : This means that the local industries are capable of feeding the larger producing units with the requisite input. The process is known as "backward linkage". For example : Sear's technicians write the specification for the products they need and then come as consulants to prospective local suppliers, in effect helping them to set up shop.

(3) Management : The training of management can take place in the host country at the home base of the international corporation.

IBM reports that it usually has 200 to 300 foreign nationals in the U.S. at any time - both managers and technicians.

(4) Research capabilities : The establishment of research facilities in local areas serves the same function for local technicians and scientists as mentioned above for management. It is a key in the transmission of physical technology. (9)

INFLUENCE OF HOST GOVERNMENT:

The host government can control the subsidiary within limits. These limits are approached only when the subsidiaries` actions are sufficiently injurious to the extent that the freedom of a local manager will be restricted. Then credit restrictions are likely to pinch the foreign subsidiary. New taxes are less likely to generate shifts in transfer prices that negate the effects of higher tax rates. However, the centralized organization presents a different picture for the host management. The subsidiary manager is not very responsive to local incentives and penalities. Decisions such as who supplies, what markets are made of, cannot permit him to ignore local governmental policies. But it may be different from what it would be if the subsidiary were free to maximize its own interest. (10)

CONTROL OF INTERNATIONAL THCHNOLOGY FLOWS :

The major domestic policy questions raised by the MNC concerns the transfer of U.S. technology abroad. In the past, the U.S. technology flew among countries within the normal conditions governing the disposition of industrial rights. "The only major control programs affecting technology transfer have been directed at preserving national security." Today, several protectionist groups are calling for controls on the transfer of commercial technology abroad by U.S. MNC's . These groups argue that MNC's narrow the so-called technology gap between the U.S. and the rest of the world by transferring highly efficient U.S. technology to relatively low wage countries. They claim that the multinational corporation has weakened the U.S. trade balance and "displaced tens of thousands of U.S. workers." "This policy (current U.S. policy of not curtailing the international transfer of commercial technology) should be reversed by giving the president clear authority to regulate, supervise and curb licensing and patent agreements on the basis of congressionally determined standards. These would include: the kind of investment, the product involved, the country of investment, the linkage to trade flows from such transfers and the effect on U.S. employment and the economy. (12)

Thus, if a U.S. firm held U.S. and Japanese patents on the same product and wanted to license someone to produce it in Japan, the firm could be ordered not to issue the license. The penalty for entering into a licensing agreement would be that the company's patent would be declared unenforceable in the U.S. This would permit other producers to make and sell the product in the United States without paying royalties. (13)

IN SUMMARY : MNC's are perceived by many host countries as potential drains on scarce domestic capital. It is also considered as a potential vehicle for the foreign policy of the parent country.

Available facts of international business indicate that the fears of host countries are greatly exaggerated. Host country policies toward foreign investment are often dictated by perceived abuses and nationalism rather by the realities of international business. This is unfortunate.

Business argues that rather than displacing jobs and weakening the U.S. balance of payments position, foreign investment creates jobs, exports and improves the balance of payments by stimulating exports through remitted earnings. Therefore businesses have opposed any kind of foreign investment controls. Their position is summarized by the following statements :

Direct controls on the movement of capital inhibit the free market economy, risk damage to world trade and development and should not be used in an attempt to achieve balance in our international accounts.

Over the long term, the outflow of funds from the public sector should not exceed the amount of net inflows earned by the private sector.

The basic policy question of foreign investment control is different in the U.S. than it is abroad. In the U.S. the control of direct investment abroad by U.S. MNC's is concerned. Unlike other developed countries which provide economic incentives to their MN's to invest abroad, the U.S. since 1965 has followed a policy of restricting the outflow of direct investment capital.

Business and industry, on the other hand, oppose foreign direct investment controls. They say that they are ineffective, place U.S. business at a competitive disadvanages aborad, and weaken the balance of payments.

Footnotes

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2. Teague Burton, "Multinational Corporations: profits and prospects" the Conference Board Record, Sept. 1971, P 21-22.

3. William, Shelley, Politics and the Multinational Corporation" Overseas Development Council, 1971, P. 9.

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5. Vernon. op., P.3.

6. Robert J. Ballon, Sophia University, Japan : Doing Business in Japan and Joint Ventures, (Charles E. Tuttle Co., Rutland, Vermount), Aug, 1971, P.1.

7. Charles P. Kindleberger, American Business Abroad, (New Haven and London : Yale University Press, 1969), Sec. 7.

8. Charles P. Kindleberger, op. cit., pp. 206-07.

9. Meany George, A Statement on International Trade of the Senate Finance Committee, May 18, 1971 , Sec. 6.

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12. William Shelly, "Controlling the Multinational Corporation" , 1971, P.14.

13. A Foreign Economic Policy for the 1970's part 4- The Multinational Corporation and International Investment, U.S. Government Printing Office, Wash. 1971, P. 29.