Multinational
Corporations
and the
Emerging
World Order

Lewis D. Solomon

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LEWIS D. SOLOMON

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### INTRODUCTION

The rise of the multinational corporation as a global force with implications for home and host nations and the international system ranks as one of the key features of the second half of the twentieth century. After World War II the United States established the political, economic and military framework for a world order. Under the hegemony of the United States, multinational corporations located in the industrialized world, first those headquartered in the United States and then those from Western Europe and Japan, created subsidiary entities in other nations. Giant firms came to rely on the seemingly limitless expansion of a world system characterized by relatively free flow of investment and goods among nations and an abundant supply of cheap energy. Corporate managers viewed the world as an open market for a burgeoning consumer society resting on a continuance of stable political arrangements that would permit corporate expansion.

In the 1970s, mention of the terms "multinational corporation" and "world capitalist system" usually evokes one of two responses: bountiful praise on the part of the executives and other representatives of giant firms, or condemnation of corporations for producing every ill befalling the globe. Although not detached from the problem of corporate power, this book strives for a more balanced approach and focuses on the impact of multinational firms on the economic, cultural and political processes of developed and developing nations. In addition to analyzing the national, regional and transnational means for controlling and regulating global private sector organizations, specific policy recommendations are formulated regarding the accountability of multinational corporations.

Apologists for multinational corporations point to the ability of such firms to transmit and allocate resources as part of a hierarchical global

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organization. The giant entities mobilize and combine capital with effective management. The efficiency advantages of multinational firms, that is, the use of resources to achieve economic growth, are stressed. Specific benefits derived from the multinational form of business organization allegedly include optimizing resources on worldwide levels, transferring modern technology and managerial skills, supplying capital to meet investment demands abroad, bringing products to satisfy consumer wants and training work forces in different nations. Global firms, it is maintained, provide benefits for both the home nation and the host countries in which the subsidiaries are located. By helping tie the world together, multinational enterprises may also lead to a reduction in conflicts among nations.

The influence multinational corporations have exerted and will exert on economic and social processes in various nation-states and in the entire world order demands that we understand the size of global giants, the concepts underlying big business strategy, the motivating forces behind foreign corporate expansion and the modes of financing this expansion. After first elucidating these elements, this study next analyzes problems that have arisen in industrialized nations as a result of the multinational system. Problem areas include economic challenges, namely, the obsolescence of significant portions of traditional economic theories regarding a competitive market and the Keynesian fiscal and monetary stabilizers; the possibility that foreign direct investment by multinational firms may have adversely affected the balance of payments position and created currency instability for various nation-states; and the rapid rise of transnational commercial banking and an unregulated Eurodollar market. Also analyzed are the specter of a technology gap, claims that global firms have reduced the number of jobs and redistributed income flows in home nations, and the involvement of multinational firms in the political processes of home and host nations. National and transnational remedies for these problem areas are considered, focusing on the need for, and the limited prospect of, transnational action.

The fiercest denunciations of global firms have emanated from developing nations. The Third World views the present international capitalist system based on multinational corporations as unacceptable. A sense of dependency, flowing from deep feelings of having been ignored and exploited in both the colonial and post-colonial periods, underlies the quest of Third World nations for a far-reaching redistribution of wealth, income, status and power. After considering specific economic, cultural and political indicia of dependency, this study will analyze the variety of means used by the Third World to redress the position enjoyed by multinational firms and the Western world. The means employed include

improved bargaining techniques, national and regional political action, collective economic efforts and proposed transnational approaches.

The success of the Organization of Petroleum Exporting Countries altered the global balance of power by challenging the existing world capitalist system. The nuclear stalemate, the proliferation of nuclear weapons, and the efficacy of guerilla insurgency campaigns neutralized American military power and rendered political power less effective. Power on the international scene has, therefore, come to rest increasingly on the control of scarce resources and the ability to construct viable blocs of producer nations. How Third World nations will use their power is unclear.

As the Third World emerges from dependency, the shape of the future world order remains uncertain. Either the promise of a meaningful dialogue between industrialized nations and Third World countries or else the fearful threat of a confrontation overhangs an assessment of possible future changes in the world system. The means of facilitating the global transfer of wealth, income, status and power and the possibility of building a synergistic system that will yield benefits for developing nations. developed countries and multinational corporations are considered here. As an example of a synergic approach to transnational conflict resolution, the final part of this book critically analyzes the past efforts and the project possibilities for a catalytic organization, the Industry Cooperative Programme of the Food and Agriculture Organization of the United Nations, which attempts to bridge the gap between multinational agribusiness corporations and the food needs of developing nations. Efforts to transcend the polarity between corporate self-interest and the social needs of developing nations raise the hope that an ongoing dialogue in many forums may lead to new projects and institutional arrangements. However, a mismatch may exist between current corporate expertise and the economic and social needs of the Third World.

Implicit in a discussion of assessing and sharing the costs and benefits of multinational corporations and in structuring and implementing mechanisms to make decisions in these areas is the need to formulate the goals of the emerging world order. The present period of transition may provide an unparalleled opportunity for a fundamental reexamination of the economic, political and social institutions—multinational corporations, nation-states, regional political groupings, economic blocs and transnational arrangements—that produce, control and distribute wealth, income, status and power. The mechanisms for allocating and regulating economic and political power may undergo significant change. The possibility exists, however remote, that the new order may rest on the creation of organizations and institutions promoting an equitable distribution of

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the world's bounty, furthering human growth and enabling individuals to realize their potential. Others, it is hoped, may be led to rethink the present structural arrangements and investigate various alternatives, including the need for and the possibilities of achieving a new set of more self-contained economic, political and social institutions.

## PART ONE

# AN OVERVIEW OF MNCs

### THE ECONOMIC SIGNIFICANCE OF MNCs

The key to the internationalization of business during the post-World War II period was not the traditional export or import of goods, but foreign direct investment. Direct investment, as opposed to portfolio investment (the purchase of stock or debt in a corporation), involves a more lasting commitment and a greater degree of control over the means of production and distribution. Although American firms took the lead in attempting to stake out a position of permanent influence in foreign markets, European and Japanese enterprises have increasingly undertaken foreign direct investment. Based on a continuation of the growth of international operations at twice the economic growth rates of industrialized nations, predictions abound that the foreign operations of worldwide multinational enterprises will reach enormous proportions by the end of the twentieth century. The specter exists that multinational corporations, if unchecked, may account for more than half of the world's industrial output and own an overwhelming proportion of all productive assets in non-Communist nations, with control concentrated in as few as two or three hundred giant enterprises.1

The importance of foreign direct investment for the economic posture of the world, nation-states in the West and the Third World, and multinational corporations may be gained by analyzing several statistics: (1) a comparison of the worldwide sales of multinational corporations with gross world product; (2) a comparison of the sales of leading multinational corporations with the gross national products of various countries; (3) an assessment of the growth in value of foreign direct investment and the geographical allocation of such investment by global firms; and (4) the significance of the profits from foreign operations for American multi-