

**TRANSNATIONAL  
ENTERPRISES  
IN A NEW  
INTERNATIONAL  
SYSTEM**

**KLAUS W.GREWlich**

# TRANSNATIONAL ENTERPRISES IN A NEW INTERNATIONAL SYSTEM

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## Chapter One

# INTRODUCTION

Transnational enterprises are a global issue. The emergence of these enterprises which have grown up in the last thirty years is a dramatic development of economic, social, and political significance. Transnational enterprises (TNEs) play an important part in the economies of many states and their role profoundly affects the whole spectrum of international economic relations. The future activities of these enterprises will continue to touch many concerns of international economic policy and may have particularly important economic and social implications for the two-thirds of mankind which now live in the poor countries of the world.

TNEs with global reach have developed a highly effective process of world-wide transnational decision-making which enables them to take advantage of their vast technological and marketing knowledge. As a result, these TNEs may enjoy special business opportunities in many cases.

It is widely recognized that TNEs may bring substantial benefits to host and home countries by contributing to the efficient utilization of capital, technology, and human resources; TNEs may notably play an important complementary role in the industrial development of developing countries through the transfer of resources, technology, managerial expertise, the expansion of productive capacity and employment, and the establishment of export markets. On the other hand, the use of the TNEs capacities placed at the disposal of private business policy oriented towards growth and profit may, under certain circumstances, clash with larger economic and social dimensions emerging in developed and developing countries.

It is in the interest of both governments and TNEs to avoid such clashes. One way to achieve this objective would be to set out the conditions for future relationships, i.e., to agree on a number of standards of behaviour. In drafting such standards it will be essential to recognise that the longer-term interests of the world community require that such standards induce TNEs to make an optimum contribution to development.

To be effective, such standards of behaviour must be based on a clear understanding of: (i) the present — real and perceived — role of TNEs in national economies and international economic relations; (ii) the existing governmental and intergovernmental policies designed to establish a framework for TNE operations; (iii) notably, the conditions for an optimum contribution which TNEs can possibly make to world development in the context of an emerging new international economic system.

It is the purpose of this study to deal with these three areas of concern.

## 1. Title of study

The notion of “transnational enterprise” is used in this study to convey the idea that these enterprises operate from their home base across national borders and may also comprise state-owned enterprises.

The study prefers the expression, new international economic “system”, to new international economic “order” because “system” refers much more to the idea of a long and deep process directed at reshaping the whole world system, of which the economic aspects are but a major facet.

## 2. Political prominences

As dramatic as the socio-economic rise of the TNEs has been their increased political prominence. The very term “transnational enterprise” implies a political visibility not associated with the words “direct investment”.<sup>1</sup> Today the TNEs are the

most visible symbol of the developed market economies and, at the same time, TNEs have become symbolic of the differences between industrial and developing countries — between the “North” and the “South”.

Why are TNEs perceived in certain quarters as a potential threat? Apart from ideological explanations and from the experience that TNEs sometimes serve as a convenient whipping boy for some of the political and economic problems that trouble the world today, one answer to this question may be found in the sheer size of some of these enterprises.<sup>2</sup> Certain TNEs are undoubtedly a large force to be reckoned with. The \$ 3 billion of value added annually by each of the top ten TNEs is greater than the gross national product of a considerable number of member states of the United Nations; and according to a well-known proposition — which has been repeated many times — 300 giant corporations will by the end of the century account for a large majority of world industrial production.<sup>3</sup> But even if, as other observers intimate, the future role of the TNEs is much less dramatic, the importance of TNEs as economic actors within and between nations may still imply a considerable impact — though one of varying importance — on the national economies and the international economic system. This impact may either result from direct and deliberate decisions or it may merely be a side effect of normal business activities.

TNEs carry on their business in a tightening web of regulations and controls. The capacity of even the smaller and least developed nations to impose controls on TNEs or to nationalize the local subsidiary of a TNE is an impressive indication that sovereignty is not at bay. Thus the common question of whether TNEs are likely to render the sovereignty of the nation state obsolete may to a large extent be the result of an oversimplification of the issues pertaining to the activities of TNEs. The nation state indeed continues to be the most effective regulator of TNE activities. In addition, political entities at the international level seek, within the limits of their capacities, to impose new restraints on the TNEs.

It would be an error, however, to argue that now the TNE is at bay. The actual and potential contribution of TNEs to the

wealth of nations is widely recognized. Thus the prevailing objective of national policies in most countries, developed and developing, is not to keep the TNEs out, but to motivate them to make an optimum contribution to the national economy. National policies toward TNEs thus embrace two distinct dimensions: (i) governments seek to assert national control over the activities of resident foreign enterprises and to minimize the loss of national autonomy; and (ii) they also seek to increase the economic and social benefits which the TNEs may provide. Sometimes it may be difficult to reconcile these two dimensions because requirements of economic development, in which TNEs can play a very positive role, appear to conflict with the requirements of national independence.

### 3. Interdependence

TNEs have acquired additional dimensions in consequence of the growing prominence and interdependence of international economic relations. Due to the rapidly accelerating international economic interpenetration, economic relations among nations have moved onto a qualitatively new plane of economic and political importance.

The magnitudes of the interpenetration and interdependence of national economies have become enormous: international direct investment in terms of assets was estimated at about \$500 billion for 1979; the external debt of the non-OPEC developing countries had reached \$350 billion by the end of that year, the external debt of Eastern Europe (including the U.S.S.R.) was estimated, in that same year, at \$45 billion; the external current account deficit of OECD countries amounted to \$25 billion for 1979, whereas the OPEC countries' total surplus was estimated, by the end of 1979, at \$45 billion.

The present world economic and energy problems underline the high degree of interdependence of national economies. This interdependence is, to a large extent, the result of developments which took place between 1950 and 1970: in that period of growth in industrial countries, based to a considerable extent on

cheap energy, "world exports" increased over fivefold in value and now exceed \$300 billion; trade has grown at an average annual rate of 10 per cent — much faster than world income. The flow of international services has increased even faster, and still more impressive have been the international capital movements, ranging from direct investment to portfolio movements and the shifts of liquid balances (despite certain control mechanisms designed to check them). But the salient feature is that the production process has become nearly as mobile among nations as trade in the goods which are exported. This applies not only to the classical "direct investment" operations but also to a wide variety of contracting arrangements.

Increasing interaction in the field of economic relations implies, however, a built-in propensity for conflict: as international economic interpenetration becomes more important and the number and complexity of domestic policy targets in the economic and social fields rise as well, international tensions are bound to increase — and this as a direct consequence of the high degree of economic interdependence. Interdependence, in fact, increases opportunities for conflict as well as cooperation, for damage as well as benefit. In short, mutual dependencies often mean mutual vulnerabilities, and governments are increasingly sensitive to this fact.

The clear understanding of the existing web of multilateral economic interaction should, of course, restrain national governments from adopting domestic economic policies which may have damaging consequences for the economic and social policies of other countries. But it is not at all certain whether understanding of interdependence and interaction will suffice to avert the danger that countries will resort to measures by which they will try to solve their own economic problems at the expense of other countries.

The world-wide operations of TNEs are an important aspect of international economic interdependence. The transnational strategies of the TNEs may, to some extent, help to integrate the world economy and to rationalize the production and distribution of the world's resources; but TNE operations may also increase mutual vulnerabilities of the nation-states. Current ef-

forts by governments to assert control over the activities of TNEs within their territories represent one way in which governments seek to protect themselves; this relates to the question of "economic security".

#### 4. Economic security

While the major international security issues and challenges of the time after the Second World War are still with us — the military race in strategic nuclear arms, the confrontation of massively armed alliances in Europe, great power involvement in local conflicts and in sensitive areas of the world, and the underlying struggle of differing political systems — these are now to some extent being overshadowed by major challenges of an economic and socio-political nature.<sup>4</sup>

National security policies in today's world are designed not merely to perform the classical tasks of foreign and defence policy, i.e., to ensure the physical survival of the individuals living within national boundaries and to guarantee the integrity of national territory, but also to assure some minimal expected level of economic welfare and a certain political and social autonomy for the nation. A major reason for this adjustment in priorities is the deep and accelerating interpenetration and interdependence of domestic economies which has coincided, in particular in the developed countries, with a steady proliferation of the economic and social policy objectives sought by governments.

The basic explanation for the latter phenomenon is that societies now demand more equitable distribution of income and increases in a vast array of social services. Thus, equality, participation, and self-management are sought in all the dimensions of human activities in the industrialized societies — but people look simultaneously for economic security, and government is seen as a means of promoting the "good life".

Developing societies are particularly sensitive to issues pertaining to economic security. Although nearly all of the Third World countries had achieved political independence by the late

1960s, a sense of powerlessness in the economic sphere remains predominant. For most of the developing countries the perception of the existing international economic system is that it is geared primarily to the interests of the developed countries. It is associated with the old political regime whereby their destiny was largely determined by outside powers.

For many states — developed and developing — the sense of threat has, to a considerable extent, shifted from the military area and the protection of the territorial integrity to the economic area.

Threats are sometimes unconventional and unintentional. It now becomes apparent why TNEs have become important in world politics, whether they wish it or not. TNEs are perceived by many developing countries — and in certain instances also by developed countries — as highly visible symbols of power and socio-economic control from outside, even though their economic power can be countered by domestic political power.

By their natures, these enterprises are supposed to exercise various degrees of control over their foreign affiliates, and their operations may have effects on jobs, price levels, growth, balance of payments policies, and, to varying degrees, on national sovereignty and security, the capacity of governments and nation states to achieve the goals of their constituents and the national self-perception in the countries concerned.

The issues pertaining to TNEs and foreign direct investment indeed cut across the whole spectrum of international economic policy: trade flows and trade policy, the monetary system, the problems and challenges relating to economic development of the developing countries, energy supply and demand, and, finally, also fundamental ideological issues such as the viability of economic liberalism and the future role of private enterprise.

By the size and spread of their commercial activities TNEs may bind nations more closely together, while simultaneously complicating their political relationships.

As to the real impact of TNEs on national economic security, there exists no general agreement as to whether the TNE is a modern form of “extra-territoriality” or whether this is just a stage in a process towards geocentric management; both alterna-

tives would give rise to governmental concern. And there is notably no common understanding as to whether the TNE is basically exploitative or whether it is in the last resort a "benign agency" for the redistribution of wealth and the diffusion of technology and a powerful instrument in the fight for economic development.

The truth certainly lies somewhere between the extremes and each case has to be evaluated on its own merits. But even if this objective balance may be established in individual cases, it should be clearly understood that the proper perception of TNEs is in the last instance not a matter of socio-economic research and knowledge. It is a political question, and to this extent solutions must be found in the area of politics.

This explains why there do not yet exist any effective world-wide standards for international investment and for the activities of TNEs, and why there is no generally accepted machinery for the solution of political and economic conflicts to which the activities of TNEs or governmental interference in the field of direct investment may give rise.

Some TNEs may feel at ease in this muddled situation; but many TNEs recognize that it implies considerable disadvantages. In fact, the security of business transactions is at stake, because TNEs are subject to an increasing number of often conflicting laws of both the nation in which they have their "home base" and the nation in which their subsidiary does business.

Hence, there is a potential for conflict. The use of the TNEs distinctive capacities may, under certain circumstances, clash with larger political and social dimensions and the resulting potential for conflicts with national policy objectives may affect the sense of national economic security.

## **5. International cooperation**

This is not to say, however, that all conflicts between the activities of TNEs and the policies of national governments should be interpreted as clashes between "narrow" profit-oriented business interests and larger socio-political dimensions. National

governments lack, to some extent, the willingness to cooperate with other governments and to remove certain obstacles and impeding structures and, thus, the TNEs find themselves harassed by partly unnecessary impediments and restrictions that may seriously reduce their economic potential and hinder them from making an optimum contribution to the welfare of nations.

National governments may also have to make some efforts not only to look critically at, but also to a reasonable extent to learn from the TNEs which have, from the organisational point of view, indeed been remarkably successful in avoiding the sort of international frictions which have to a large degree paralyzed attempts to find an efficient solution to an increasing number of major problems in the field of international relations. There are, of course, limits to such a comparison between international business operations and the efforts of governments to organize international economic and political relations. There is, on the other hand, no doubt that there exists a need to adapt the existing political structure to the potential of modern economic reality and to prepare new forms of international cooperation, notably between the industrialized and the developing countries.

## 6. A new international economic system

In recent years, particularly since 1974, there has been a great deal of discussion over the conditions for a new international economic system. Some still reject the terminology "new international economic order" (used in the framework of the United Nations) as a revolutionary slogan; they prefer to speak of the reorganisation of international economic relations. Putting terminology aside, there is, however, general agreement that the main principles governing international economic relations must be re-examined, taking into account the new socio-economic situation and the changes in political attitudes and power relations over the past thirty years. International economic relations have indeed reached a crossroads: the monetary and trading systems which governed international economic relations during