The Multinational Enterprise and United States Foreign Economic Policy

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Foreign economic policy of the United States has basically not recognized the multinational enterprise (ME)\(^1\) as a distinct and useful private institution in the international economic arena. It continues to disregard the ME's special characteristics and to meld it into all other forms of foreign direct investment under the catchall and nondiscriminating title of transnational corporations, now used also in United Nations literature on the subject.\(^2\) This lack of distinction reflects partly a continuing commitment to nondiscrimination among types of companies and international activities and partly a lack of recognition of the necessity to pursue new directions in American foreign economic policy. The United States Government still holds to post-World II assumptions underlying its desired international economic order, and it continues to pursue policies aimed at creating that particular order.

The rest of the world has walked away from that model, however, whenever it adversely affected "vital interests." Even the United States has asked for exceptions to the rules when applied to agriculture and altered their application to several industrial sectors, transport services and banking. And the developing countries are pressing strongly for the creation of a new international economic order, whose rules they will help set.\(^3\) Within this new order, the transnational corporation is also being treated as an undesirable institution, requiring considerable restraint or

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\(^{1}\)"Multinational enterprise" as used here refers to that form of international business which seeks to integrate activities of its affiliates and the headquarters company under a single strategy formed at the center. It seeks to orient its marketing worldwide; to lock together affiliates within its overall framework in the optimum arrangement for least-cost production; and to coordinate managerial and technical strategies from the center. For distinctions from other forms of international business, including the "classical investor" and the international holding company, and for argument for the analytical utility of these distinctions, see J. BEHRMAN, DECISION CRITERIA FOR FOREIGN DIRECT INVESTMENT IN LATIN AMERICA 1-34 (1974) [hereinafter cited as DECISION CRITERIA]. An extensive bibliography on international business issues is to be found in Commission on Transnational Corporations (2d Sess.), Research on Transnational Corporations, U.N. Doc. E/C.10/12 (1976), and Annexes, U.N. Doc. E/C.10/12/Add. 1 (1976).


even rejection. Foreign direct investment may sometimes be desirable in the new international economic order, admit its proponents, but not in the forms in which investment has developed over the past ten or fifteen years.\textsuperscript{5}


The new international economic order should be founded on full respect for the following principles:

(c) Full and effective participation on the basis of equality of all countries in the solving of world economic problems in the common interest of all countries, bearing in mind the necessity to ensure the accelerated development of all the developing countries, while devoting particular attention to the adoption of special measures in favour of the least developed, land-locked and island developing countries as well as those developing countries most seriously affected by economic crises and natural calamities, without losing sight of the interests of other developing countries.

29 U.N. GAOR, Supp. (No. 1) 4. The importance of less developed countries' participation is stressed in J. BEHRMAN, TOWARD A NEW INTERNATIONAL ECONOMIC ORDER (1974).

The Programme of Action, supra note 3, calls for an “international code of conduct for transnational corporations” to:

(a) Prevent interference in the internal affairs where they operate and their collaboration with racist regimes and colonial administrations;
(b) Regulate their activities in host countries, to eliminate restrictive business practices and to conform to the national development plans and objectives of developing countries, and in this context facilitate, as necessary, review and revision of previously concluded arrangements;
(c) Bring about assistance, transfer of technology and management skills to developing countries on equitable and favourable terms;
(d) Regulate the repatriation of the profits accruing from their operations, taking into account the legitimate interests of all parties concerned; and
(e) Promote reinvestment of their profits in developing countries.

29 U.N. GAOR, Supp. (No. 1) 8. The form of international business most under attack has been the resource-seeker, which I have called the “classical investor.” See DECISION CRITERIA, supra note 1. This form ties resources, both natural and labor, located in one country to other stages of production in the home country or in third countries. Governments' increasing concern to control their own destiny has caused takeovers of such extractive operations in many countries. See, e.g., the takeover discussed in note 23 infra. The result has been a significant shift in the methods of combining the contributions of transnational corporations in this sector with the resources in host countries, altering the company organization and operations. The result is not necessarily less international integration, but a shift in the locus of control over the nature and extent of such integration.

Similarly, those international companies considered market-seekers, which I have called “international holding companies,” (IHC), see DECISION CRITERIA, supra note 1, are being pressed by many host governments to become localized in ownership and control. For example, the Mexican foreign investment statute defines foreign investment to mean all direct investments by foreign individuals, companies or other economic units without juridical personality; by Mexican-chartered entities with a majority of foreign capital; and by Mexican-chartered entities in which foreigners exercise management responsibility regardless of the nationality of ownership. Law to Promote Mexican Investment and to Regulate Foreign Investment of Feb. 16, 1973, D.O. (Mar. 9, 1973) [Mex.]. International holding companies operate in fields such as banking, insurance, communications media, hotels and other services primarily, but in the manufacturing sector as well. Where affiliates of IHC's are not integrated across national boundaries, it is largely because of governmental restrictions on the movement of goods, capital and personnel, or because of market differences which make it uneconomical to integrate them. The lack of integration makes it easy for host governments to force joint ventures or to constrain investor activities for the benefit of their national economies.\textsuperscript{5}

Some of the reasons underlying this wariness are explored in Penrose, The State and Multinational Enterprises in Less-Developed Countries, in J. DUNNING, THE MULTINATIONAL

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The company seeking "least-cost production" in various countries to serve a world market or at least one that is fairly standardized, i.e., a "multinational enterprise" in my lexicon, is a prime institution for fostering international industrial integration. But these capabilities have not been seen as a necessary or integral part of the economic relationships of the Organization for Economic Co-operation and Development (OECD) countries or the Third World. Nor have these capabilities been seen as uniquely useful in solving some of the problems of the "commons" which are facing multiple members of the international community. What is required to achieve international economic integration is a reorientation of United States foreign economic policy so that the ME can play a significant role in creating an acceptable interdependence leading away from the present tendency toward anarchy.

Assumptions Underlying the Post-World War II Economic Order

The United States Government sought even during the conduct of World War II to plan for the postwar international order. The basic underlying principle was that of multilateral, nondiscriminatory trade and payments. This principle, based on the beliefs that international economic welfare would be maximized by the removal of as many barriers to trade and capital flows as possible, assumed that decisions taken under free-market criteria would lead to an international division of labor, or location of economic activity, which would be acceptable to all parties. This acceptability would supposedly arise from the recognition that each country would be receiving shares in the total product equivalent to its contributions.

The postwar policies adopted by the United States Government reflected its political objectives, the economic theory of the day and its responses to the problems of the 1930's. As with much economic planning, these policies were directed at solving the problems and eliminating the disturbances of the 1930's, thereby enabling a "just endurable peace." Assumptions related to political, economic and international priorities underlay these policies.

International Economic Democracy

The postwar world was assumed to be directed properly toward a concept of international democracy, under which one nation was equal to

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6Decision Criteria, supra note 1, at 6-17.
7For such an appreciation gap, see Aspen Institute for Humanistic Studies, The Planetary Bargain: Proposals for a New International Economic Order to Meet Human Needs 4-5 (1975).
another. International institutions reflected this principle, and international economic relations were built on the assumption that what was sought was some concept of international economic welfare. Both the political and economic policies of the postwar decade were abstracted from economic size or dominance. All nations were to seek to be treated equally and were to treat others equally in the political and economic arenas. This objective included the further assumption that the world would accept the principles of "rule by law," the rights of private property and the principles of "free-market behavior." If disputes arose, they would be submitted to international tribunals.

But developments of the last few decades have proven this assumption false. Rather than forming an international economic democracy based on the free market, the world has divided into a number of economic blocs: Western Europe has its economic community; Eastern Europe, its COMECON; Latin America, the Free Trade Association and the Andean Pact; Asia, the ASEAN Group; Africa, a number of groups. And the advanced countries have formed the Organization for Economic Co-operation and Development, which is counterpoised by the Group of 77, now including over 100 developing countries.

The significance of these developments for United States foreign economic policy is that no one set of rules will apply equally to all of the different groups or to the national members, so there is continuous pressure for renegotiation of the rules of trade and investment or their adaptation for the interests of a particular group. Thus, the rules of trade and investment among the advanced countries are not accepted in the Eastern European countries nor by the developing countries. Further, the developing countries have begun to assert their interests in a desire to reform the rules; their objective is the creation of a new international economic order which they have helped conceptualize and from which they expect to obtain a more equitable distribution of the benefits of international economic growth.

International Economic Growth

The economic problems of the postwar world were to be solved by sufficient increases in gross national products. Growth was not only necessary to make the postwar adjustments easy, but it was assumed to be a sufficient remedy for the economic ills of the world—at least, other objectives could not be obtained except by the route of material advance.

For those of the developing countries which were not able to join as full members of the world economy, their problem of inadequate produc-
tion would yield to infusions of capital. Therefore, domestic capital formation and international capital transfers would be a nearly adequate solution to the problem of growth in the developing countries. With growth properly stimulated, the "gap" existing after World War II between the advanced and the poor countries would close within the foreseeable future, thereby removing another obstacle to international democracy.

Within the industrialized countries, full employment was the prime objective, and it was assumed that a balance of monetary and fiscal policies would achieve this goal. It was further assumed that full employment policies would not necessarily impose pressures on international payments or interfere with the obligations of the advanced countries to assist the less developed countries in joining the international community. Full employment policies, therefore, would not themselves lead to disequilibria in international payments. Alternatively, if they did, nations would be willing to make the adjustments necessary to prevent such disequilibria and, therefore, would play their appropriate roles in generating maximum international welfare for the community as a whole.

An underlying assumption shared by both advanced and developing countries was that growth would be maximized so that nations would not be concerned with the distribution of that growth among the member states; whatever distribution occurred under free-market decisions of equal bargaining members would be acceptable to all. Any distribution problems left over would be handled by aid transfers. Such aid was justified as a temporary phenomenon under which the benefits of the maximized international economic welfare would be redistributed among the contributing countries.

However, three new pressures have arisen which altered the setting within which the formulation of this international economic policy took place. First, concern has focused on the social costs of economic growth, both domestic and international, including the desire to reduce or eliminate damage to the national and international environments, both from disturbances to cultural lifestyles and from the effects of industrialization. A second pressure relates to the limits which may be reached in the use of nonrenewable natural resources and to the power which those limits furnish particular suppliers within the international economy. Here, of course, one thinks of the energy shortage and the power of the Organization of Petroleum Exporting Countries, though there are other possibilities as we move towards scarcity in many other essential minerals or metals. The third pressure arises from the concern for greater equity in sharing of the benefits of international economic growth, which the less developed countries (LDC's) feel needs not only to be corrected in the future, but also to be adjusted to account for past inequities. To the postwar United States, criterion of efficient use of world resources to

12See, e.g., Thorp, the Necessity for Foreign Investment, 13 DEP'T STATE BULL. 829, 832 (1945).
maximize international economic welfare must therefore now be added that of an equitable distribution of the benefits. This distribution is to be counted not simply in the allocation of material gains, but also in the allocation of effective participation in both decisionmaking and implementation.

The assumption of the United States concerning full employment and the impact of domestic policies on the balance of payments of nations has also proved invalid. The industrialized countries, including the United States, have not maintained full employment. Yet, policy planners in the late 1940's clearly understood that without the maintenance of full employment in the United States, the postwar international economic system would be jeopardized. Consequently, there has been manipulation of elements in the balance of payments for national purposes, including several such policy aberrations by the United States Government itself.13

At the same time that national orientations have been reinforced by the inability to maintain full employment, the increasing demands on governments for expansion of economic and social welfare programs have turned government policies inward towards what is called the new nationalism.14 This form of nationalism arises from demands for solutions to numerous problems within the society which were formerly handled by individuals or private economic units.15 Every increase in government responsibility

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15GEIGER, supra note 14, posits six categories of national policy objectives in the new nationalism:

1. maintenance of economic growth and full employment, requiring adequate public and private capital formation, training of labor, and research and development for technological innovation.

2. continuing improvement of living standards, including not only the traditional component of rising material consumption but now also better health, improved and continuous education, greater leisure and more facilities for recreational activities, and earlier and more secure and satisfying retirement.

3. more equitable distribution of income, particularly to eliminate poverty among the lowest income groups and to revitalize depressed and stagnant districts and towns within the country.

4. conservation of natural and man-made environments, including urban renewal and improvement, reduction and eventual elimination of air and water pollution, etc.

5. advancement of knowledge, both basic and applied, especially medical research, the exploration of space and of the oceans, and the development of additional synthetic materials and new sources of energy.

6. safeguarding national security and meeting international responsibilities, including defense expenditures, military research, arms assistance to allies and friends, foreign-policy subsidies, development aid, etc.

Id. at 50.
in the domestic economy increases the eagerness to reject or isolate disturbances from the international economy.

International Trade and Investment

American postwar policy considered trade to be the primary problem of the international economic arena and also the primary technique for increasing world welfare. Movements of factors such as capital, technology, management and labor were considered unlikely, and, following trade theory, they were not seen as a perfect substitute for trade. On the other hand, trade was seen as a near substitute for factor movements in equalizing the benefits of world economic growth. Therefore, freeing of world trade was considered the paramount objective of international economic policy. It was assumed that freer trade would be seen as a clear benefit, both for the world as a whole and for individual nations.\(^{16}\)

Capital flows among nations were presumed to follow free-market criteria, based on the returns to capital; only if left free would they contribute appropriately to the maximization of international economic welfare. But if capital flows destabilized the exchanges or forced countries into unwanted disequilibria in payments, they would have to be controlled, since trade was seen as a more significant contributor to economic growth. When capital did not move so as to maximize world welfare, because of political instability or "risk illusions," incentives could and should be used to improve the situation by allocating capital more appropriately. Therefore, private investment was relied upon in the development of a stable world economy, but induced, where necessary, to respond appropriately and supplemented strongly by government investment and grants.

It was further assumed that there are few, if any, connections between trade and investment. Investment was considered to be drawn to various locations by potential returns to capital, both long and short, for both portfolio and direct investment. However, given the disturbances of the 1930's and 1940's, governments assumed that private capital would not flow in sufficient amount. Therefore, governmental funds were substituted, leading to the reorientation of the Export-Import Bank and the progressive creation of the International Bank, the International Finance Corporation, the International Development Authority, the Inter-American Development Bank and eventually the Asian Bank. The necessity for any policy toward private capital movements arose only from the need to prevent disequilibria in balance of payments and to help private capital make a contribution to the growth in developing countries. No long term policy was considered necessary for investment among the industrialized countries (past the Marshall Plan) because capital would "naturally" flow to the uses which would maximize world welfare.

\(^{16}\)See U.S. DEPT OF STATE, PUB. NO. 2411, PROPOSALS FOR EXPANSION OF WORLD TRADE AND DEVELOPMENT (1945).
Therefore, the primary international economic objective was that of liberating trade through reduction of tariffs and quantitative restrictions, and supporting its expansion through stable exchange rates. The second objective, adopted only in 1950, was that of accelerating growth in developing countries; once this was achieved the liberalization of trade would be even more significant and easy since the LDC's would be included as full partners in an integrated international economy. The international division of labor was determined by market criteria reflected in development according to comparative advantages and trade patterns. No special attention was given to locational factors for either industrial or agricultural activities. But trade policies have been modified by advanced countries towards protection for the purposes of maintaining existing industrial and agricultural structures, or by developing countries to alter comparative advantages so as to improve these opportunities for industrialization. Both of these moves have raised the question of what principle should be applied in the determination of the appropriate international division of labor—that is, the allocation of economic activity among countries. Classical theories, which underlie the postwar policies of the United States, led to the conclusion that economic activity should be located where comparative advantages existed. Development policies are aimed, however, at changing those comparative advantages and at altering the structure of industrial activity. Trade policies have therefore been complemented by a variety of other policies aimed at deploying industry around the world.

As a result of protectionist policies which required investment behind high tariff barriers, both in the European economic community and in developing countries, and the eagerness of American companies to maintain market positions, the flows of direct foreign investment and of technology through licensing agreements created a new phenomenon of "international production," complementing and substituting for the flow of international trade and payments.

The decision factors surrounding international production are different from those postulated by United States postwar policy as underlying international economic relations. Rather than the flow of trade and finance being independent, international production frequently ties these two activities together. Domestic production in a foreign country has arisen where trade would otherwise have taken place had barriers not been erected, and trade was created as a result of the new locations of production and shifting comparative advantages. In addition, other trade opportunities were opened as the result of the investment in complementary goods or capital equipment as well as in technology. Trade and

17Protectionist considerations underlay much of the business community's opposition to the proposed International Trade Organization. See Diebold, note 8 supra, at 20-24.
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investment, therefore, have become integrally tied through a new institution, the Transnational Corporation (TNC).

THE TREND TOWARD NEOMERCANTILISM

In the early postwar years, the United States was the dominant economic power in the world, supplying the necessary capital and setting the rules of the game. Its views had prevailed not only in the establishment of the International Monetary Fund, but also in that of the World Bank and even in the Charter of the International Trade Organization, which was aborted by Congress because of the inclusion of some provisions on direct investment, restrictive business practices and full employment obligations that it did not like. It was not possible for the world to go in any direction unacceptable to the United States. The situation has changed substantially, but the American policy stance has appeared to be one of a rear guard action to prevent other nations from moving in a different direction. Despite these efforts, the demands for new orientations have increased significantly in each of the aspects noted in the section above and in other ways as well.

These changes in the international economy raise the question of the direction in which we are moving. No longer are we clearly seeking to form an integrated international economy; rather, there are disintegrating forces pulling in the direction of neomercantilism. This movement is exemplified by the cries of the developing countries against “dependencia” and their seeking for a higher degree of national self-sufficiency and independence, “de-linking” from the advanced countries. At the same time, there is a widespread recognition in the developing countries, as well as members of the OECD, that the world is highly interdependent and that a continued flow of foreign direct investment is necessary to achieve national objectives.

Still, neomercantilism shows in the gradual takeover of international companies in the extractive sector, petroleum and mining, and the gradual localization of companies in the service sectors. These service organizations, such as hotels, insurance companies, media, advertising, retailing

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19The transnational corporation's decisions on investment and location of production are made on the basis of advantage to the company rather than comparative advantage among countries. See Behrman, International Sectoral Integration: An Alternative Approach to Freer Trade, 6 J. World Trade L. 269, 270 (1972). Eric Wyndam White, former Secretary-General of the General Agreement on Tariffs and Trade, proposed negotiations on trade barriers based on a more manageable sector-by-sector approach and, since trade has increasingly become a result of foreign investment and of the shifts in the international location of production, the sectoral approach would have to encompass modern investment patterns; several such sectoral agreements have already been implemented. See, e.g., C. Beigie, The Canada-U.S. Automotive Agreement: An Evaluation (1970); Pella, The Coal and Steel Community as a Case Study in Integration, in European Integration 137, 146 (C. Haines ed. 1957).

20See Diebold, supra note 8, at 11-24.


22For a record showing a pattern of increased annual takeovers, see Hawkins, Mintz & Provisciero, Government Takeovers, 7 J. Int'l Bus. Studies 3-16 (1976).
and management consultants, are not companies which are highly integrated; they normally both obtain resources and sell outputs entirely within the host country. Where nations feel themselves able to dispense with the services of the international companies, they are gradually doing so, either by buying them out or literally confiscating them.\(^2\) Outright confiscation has diminished, as compared with pressure to divest\(^2\) because of a desire to maintain a climate favorable to further investment desired in other sectors.

As a result of these policies, which gradually reduce international investment in the extractive and service sectors, the presence of foreign-owned companies is relatively narrowed to manufacturing activities. Within the manufacturing sector, there are two types of companies still active—the international holding company (IHC) and the multinational enterprise (ME).

The IHC form is not integrated in the same way as the ME form, since its objective is largely to seek production within the host country for the purpose of serving the national market.\(^2\) It the total operation of the

\(^2\)One of the most extensively discussed such takeovers has been the 1971 appropriation of foreign copper enterprises in Chile. This confiscation culminated a long and turbulent investor-host nation relationship. See Mikesell, *Conflict in Accommodation in Chilean Copper*, in *FOREIGN INVESTMENT IN THE PETROLEUM AND MINERAL INDUSTRIES* 369 (R. Mikesell ed. 1971). The case presents many of the problems inhering in foreign direct investment and exemplifies the clash in objectives of investor and host government which can lead to the deterioration and ultimate abrogation of the relationship.

In the Chilean case, the antagonism became so great that under the expropriatory legislation, then President Allende was empowered “to order the Comptroller General, in computing the compensation, to deduct all or part of the excess profits earned annually by the nationalized companies . . . .” Law No. 17,450 of July 15, 1971, reprinted in translation in 10 Int'l L. Materials 1067, 1069 (1971). This provision not only led to no compensation for the expropriation of assets having a book value estimated at well over $300 million, but also to an assertion that the investor (Kennecott) owed restitution of excess profits in the amount of some $310 million. The dispute was defused following the 1973 military coup d'etat overthrowing Allende, and the junta reached a settlement with Kennecott in 1974. See generally T. Moran, *MULTINATIONAL CORPORATIONS AND THE POLITICS OF DEPENDENCE: COPPER IN CHILE* (1974); Note, *The Chileanization of the Copper Industry*, 1 N.Y.U. Int'l L. & Pol. 158 (1969).


\(^2\)See Behrman, *International Divestment: Panacea or Pitfall?* 18 LOOKING AHEAD 1 (1970). It has been suggested that forced divestiture of foreign-owned affiliates is the solution to the conflict between private direct investment and the policies of the developing countries. See, e.g., A. Hirshman, *How to Divest in Latin America, and Why* (1969).

\(^2\)The IHC affiliate in the host country thus appears as a nationally-owned company, and this type of investment presents the fewest problems for the host government because the
company were nationally based, such foreign direct investment would have the disintegrating effect on the international economy of a total substitute for trade through the movement of the factors of capital, management and technology. The IHC form has been most predominant in the developing countries simply because their markets have not been open to all exports and imports. Not being integrated across national borders, the developing countries feel that they can interfere with foreign investment without losing significant benefits. There is less necessity to take into account international competitive conditions, and therefore less restraint on the governments, in imposing various kinds of regulations or interferences.

One of the problems facing the ME form is that little distinction in policy circles has been made between it and the IHC form. Therefore, the potential role of the ME form has been more circumscribed than appropriate if governments have an objective of international industrial integration and it is to be achieved in the most effective manner.26

THE ME IN THE PRESENT INTERNATIONAL ECONOMY

Although international companies have existed previously, such as in the extractive sector, which had tied production and trade tightly together, international production became a significant phenomenon only in the 1960's with the rapid expansion of direct investment and the rise of the multinational enterprise.27 The multinational enterprise was a new form which tied the economies within which it operated even more tightly together. Its essential characteristic is the integration of its affiliates with each other and with the parent under a centralized policy dictated from headquarters. It has unique capabilities compared with other forms of international business, and therefore calls for a different policy orientation. It could not operate effectively to achieve the goals of economic internationalism sought in postwar United States policies; its very existence undercuts historical United States objectives.

The particular characteristics which make up the multinational enterprise developed among fairly open national economies.28 Once the

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28This point is more fully discussed in J. Behrman, NATIONAL INTERESTS AND THE MULTINATIONAL ENTERPRISE 1-12 (1970).
barriers to the movement of goods were reduced among the OECD countries through negotiations under the General Agreement on Tariffs and Trade (GATT); once the enlargement of the European market occurred through the formation of the European Community; once currencies were secure enough to attract capital movements; once governments were stable enough to reduce political risks, the large United States corporations, and more lately those of Europe and Japan, extended their multiproduct organization into other regions of the world. This created a multiproduct, multiregion enterprise, integrating production and marketing activities so as to achieve least-cost operations among the advanced countries. In addition, some foreign sourcing occurred in developing countries which provided low labor costs and relatively high labor productivity so that their activities could also be integrated with those of the other affiliates or headquarters of the multinational enterprises. Consequently, a form of international industrial integration has arisen without its having been conceived within the policy planning of governments.

This integration did not occur without raising some concerns on the part of host governments, however. Japan early restricted the freedom of entry of such companies in order to reduce the degree of foreign ownership and control over Japanese industry. Although Canada and Europe did not act similarly, they became concerned over the extent of foreign ownership, especially in specific industrial sectors, and over the possible disruption of national policies, including those related to economic growth, employment, monetary stability, balance-of-payments equilibria, technological advance and income policies.

In a partial response to these concerns, various governments and regional groups have promulgated codes of conduct directed at the international companies. These codes have not distinguished between the

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29For instance, in Canada the percentage of direct foreign financing in gross capital formation rose from 19 percent to 33 percent and the proportion in new capital formation from 24 percent to 45 percent between 1946 and 1965. See PRIVY COUNCIL OFFICE REPORT, FOREIGN OWNERSHIP AND THE STRUCTURE OF CANADIAN INDUSTRY 424 (1968). In the United Kingdom, during the mid-1960's, United States affiliates' expenditures on plant and equipment amounted to between 2 percent and 15 percent of annual national capital expenditures in manufacturing. For all Common Market countries, the United States portion of industrial investment rose from 4.5 percent in 1958 to 6.3 percent in 1964. See generally J. BEHRMAN, SOME PAT-TERNS IN THE RISE OF THE MULTINATIONAL ENTERPRISE 42-43 (1969).

30See D. HENDERSON, FOREIGN ENTERPRISE IN JAPAN 3-35 (1973).


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IHC or ME forms of operation, treating all types similarly, despite the fact that the results of the restrictions are not the same for each type. Consequently, governments are achieving results from controls which they did not necessarily seek.

Both the IHC and ME forms exist among the advanced countries, though the IHC form predominates within the developing countries. Recently, however, the opening of trade opportunities, as well as the movement of capital, among the developing countries or between them and some of the advanced countries is introducing the possibility of ME type activities among affiliates within developing countries as well as between them and the advanced countries. The codes of conduct previously aimed at the IHC type are likely to affect adversely these nascent ME type activities.

Fortunately, for the purpose of keeping policy options open in the future, the OECD Guidelines for Transnational Corporations\(^3\) are not so stringent that they will adversely affect one form of business organization or the other. So far, the major impacts of the Guidelines will be to obtain the disclosure of information, which itself should reinforce an understanding of the necessity to make distinctions among the impacts of the various company forms for the purposes of achieving a greater interdependence or national independence, whichever is desired.

Both the OECD code and the two sets of proposed United Nations codes, one by the advanced countries (Group B)\(^4\) and the other by the Group of 77,\(^5\) contain a mixture of policy orientations; they submit to the nationalistic pressures of the day while at the same time requiring the companies to operate as though they were within an international competitive system.\(^6\) These differences reflect the fact that the nations of the world cannot agree on what type of international economy they want. They are consequently taking both stands, which will lead to further frustration so long as they do not recognize that the IHC form supports a high degree of national self-sufficiency while the ME form supports a greater degree of interdependence and specialization. Most of the code provisions move the companies in the direction of the IHC form, exemplified at the extreme by the provisions requiring "fade-out" and joint


\(^{4}\)See id. at 21-22. For a discussion of the work being done, together with a useful compilation of references to relevant documents, see Rubin, Reflections Concerning the United Nations Commission on Transnational Corporations, 70 A.M. J. Int'l L. 75 (1976).

ventures. The increasing participation of government companies as joint venture partners is also likely to reduce significantly the integrating operations of the ME form, pushing it back toward the IHC form.

If the present trends in the international economy continue, it is likely that the ME type will gradually disappear or at least stagnate at the present level. Future foreign direct investment will be oriented toward national economies with an effort to push vertical or horizontal integration within the national economy, rather than across national boundaries, which will push companies into the IHC form. Consequently, international specialization will be reduced, and the more effective use of world resources dampened. No judgment is made here as to whether or not this is desirable; that depends on the value judgments underlying the policy approaches of the various governments. All that is asserted here is that present policy orientations do not take into account the feasibility of using different kinds of companies for different policy objectives but rather treat all of them in the same manner and, therefore, produce results which were not necessarily anticipated or desired.

The New International Economic Order (NIEO)

If a new international economic order emerges, it will do so out of three present and distinct pressures: those moving towards nationalism and economic independence, those strengthening internationalism and economic interdependence, and those arising from special problems which require distinct institutional arrangements, such as environmental protection and the development of ocean resources.

Independence

Evidence exists in the actions of both the international companies and host governments that the role of foreign direct investment may be diminishing on the international scene. National governments have imposed increasingly stringent regulations on entry and operations, and they have called for regional and international regulations which are likely to make opportunities abroad less attractive than those at home for companies in most of the advanced countries. From the standpoint of company decisions, the adverse impact of these restrictions is reinforced by the increased demand in the advanced countries for capital investment and new technological breakthroughs. In addition, the instabilities in the international economy, resulting from the cyclical activities in major economies, have raised the economic risks at a time when political risks are also high. Governments, therefore, appear to be placing obstacles in the way of foreign direct investment at a time when interest in such activities on the part of companies may be waning. If, in fact, foreign direct investment is needed to accelerate growth in the developing countries, the new international economic order will need to provide stimuli, not
necessarily incentives, for the companies simply to assess opportunities that may exist.

Instead, from initiatives taken by the Group of 77 and its individual members, it would appear that increased governmental interference is likely, even to the point of government participation in many of the manufacturing activities of the international companies. Such participation would have as its objective the control of company activities in the host country based on \textit{ex ante} information, rather than \textit{ex post} disclosure which would require the governments to try to undo what was already done. Inadequate responses by the companies to requests for information disclosure currently are likely to bring on a higher degree of governmental participation in ownership and control. The result will be to force the international companies to dissociate their affiliates so that their activities can be contained within national markets. The consequence will be international industrial disintegration with a reduction of trade, despite the fact that developing countries are greatly interested in an expansion of exports.

\textit{Interdependence}

Few of the developed countries are seeking to reduce the interdependence which exists in the international economy, and most of the developing countries recognize that a high degree of interdependence will be necessary to achieve satisfactory levels of economic and social welfare. However, for a time, they feel the necessity to step back from "dependencia" and to establish a sufficient degree of independence so that they may then renegotiate the nature and extent of interdependence. Interdependence, to the developing countries, means mutual dependence, as is the case within Europe. Whatever degree of interdependence is achieved, they want the benefits distributed more equitably. If interdependence is achieved under the decisions of the transnational corporations, LDC's see


\textit{See J. BEHRMAN, DEMAND FOR INFORMATION FROM MULTINATIONAL ENTERPRISES} 16-17 (1976) [on file with the \textit{INDIANA LAW JOURNAL}].

\footnotesize{The desire of the developing countries for exports from affiliates of the transnational corporation is evidenced in a report by the UNCTAD Secretariat which emphasizes the desirability of requiring TNC's to expand their exports, increase local processing of materials and raise the value of exports to other countries, while not increasing imports or import prices. Role of Transnational Corporations in the Trade in Manufactures and Semimanufactures of Developing Countries, U.N. Doc. TD/185/Supp. 2 (1976).

There is no recognition in this report that the ME's can produce a high degree of industrial integration. Rather, it reflects a request that each developing country seek, through the operations of the TNC's, to expand its exports. This desire reflects a concern for the location of industrial activity within the country, an increase in the value added by such activities and an expansion of the market served through exports. Of course, not everyone can achieve this goal, and a critical question will arise as to what specific industries are located in what countries. A type of interdependence would arise, without there having been any serious consideration of what type was desirable.}
the benefits going more to the TNC's than to themselves. Latin America has long asserted that it will not achieve economic integration for the benefit of the international companies.40

The developing countries thus want a better position in the new order and expect the advanced countries to help them achieve it. At the same time, they are likely to make it more difficult for foreign direct investment to take place. The conditions which would encourage the growth of foreign direct investment are numerous, but they are not all likely to exist in the near future. They include relative economic and political stability and expansion of markets overseas, the absence of adverse interferences from political authorities, continued successes from past foreign investment, reduction in barriers to trade and capital movements including a decrease in transport and communication costs, the development of new technologies, the discovery of new natural resources, continued disparities in labor costs abroad relative to productivity, increasing standardization among world markets, continued importance of economies of scale in reducing costs of production and in serving worldwide markets, continued interest in defensive investment to maintain market share, and continued availability of surplus management and capital.

Not all of these conditions will continue to exist, but the international companies will adjust to changed rules so long as they are the same for all participants and an opportunity remains for successful operations. From the standpoint of molding the new international economy, however, the mere existence of these conditions and expansion of TNC activities is not enough. Under conditions in which the TNC's determine the location of industrial activity and the structure of trade, these companies would create the new international economic order. This is unacceptable both to advanced and developing countries. Consequently, what is required is a determination of the type of order that is desired and then the role which the TNC's, but especially the ME's, can play in it.

**Special Problems and the ME's Role in the NIEO**

The ME is probably the most useful institution for achieving the very integration that is desired among both the advanced and the developing countries, as well as between them.41 To recognize this does not reduce the

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40 The members of LAFTA have signed and put into operation nine sectoral agreements that reduce duties or allocate production, or both, among the parties to the agreement. Another nine have been signed but are not yet in operation, and another sixteen are under negotiation. See generally Note, The Latin American Free Trade Association—An Attempt at Economic Integration, 1967 UTAH L. REV. 297. The most successful agreement was Agreement No. 1 (1962), however, no subsequent agreement has permitted a single company to gain such benefits and none is likely. See J. BEHRMAN, THE ROLE OF INTERNATIONAL COMPANIES IN LATIN AMERICAN INTEGRATION (1972).

41 For instance, because the multinational enterprise has affiliates in many countries, it is particularly capable of meeting governmental demands for sharing the benefits of large intergovernmental projects such as the NATO projects for co-production of weapons systems. See U.S. DEP'T OF STATE, PUB. NO. 8593, MULTINATIONAL PRODUCTION CONSORTIA: LESSONS FROM NATO EXPERIENCE (1971). The multinational enterprise can be used as a vehicle for
necessity to achieve a better distribution of the benefits and a reorientation of the loyalties within the TNC’s. For example, the Chairman of the Economic Council of Canada sees the NIEO as demanding international support in persuading multinational firms to adapt their technology and overall activities to the needs and interests of host countries, and backing for moves to change patent laws and other measures in ways that will lower the costs of transferring technology to underdeveloped countries; [and] elimination of traditional legal restraints on expropriation of foreign investments without full and immediate compensation.42

There are special roles for the ME form, and it can be used in a way to distribute the benefits of international growth more appropriately. For example, the negotiations on the Law of the Sea and the development of oceanic resources is part and parcel of the development of the new international economic order. The significance of these negotiations is emphasized by the fact that this is the first large scale negotiation concerning the rules of the game in which the developing countries have had a primary role to play. All prior negotiations have been an effort to modify past rules while here, the rules are being developed de novo, and the developing countries are being very careful that they reflect their interests adequately. Of course, these negotiations affect a variety of interests such as security, science and technology, environment, food, energy, resource management, communications, international trade and the construction of new institutions to implement the rules.

The role of the ME’s in development of oceanic resources could be critical, but it will have to be adapted to the new needs and pressures; the ME cannot simply be flung into the exploitation of the sea without the guidance of all interested governments. This calls for the kind of imaginative new arrangements which will reflect all of the interests and demonstrate that they can be met equitably. ME’s of several countries could be drawn into consortia for the purpose of exploration and development, permitting participation of many countries in various phases of the operations. To be effective, obviously, new rules will also have to provide for an adequate level of efficiency in the operation of these consortia, or their special capabilities will be eliminated. These consortia could operate in conjunction with or separately from the proposed International Enterprise for exploration and development.43

Since the ME’s originate largely in the United States, although increasingly in Europe and in Japan, it is incumbent upon the United

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States Government to take the initiative necessary to demonstrate the potential role of the ME’s within the NIEO. It can do this by demonstrating the tradeoffs which are necessary in meeting the multiple goals sought by the developing and advanced countries in any such new order. These goals will require a tradeoff of efficiency for greater participation among all countries, but that is the nature of governmentally based decisions. Democratic governments have as a major objective the participation of its citizens in the decisionmaking processes; carried to the international level, acceptance of the NIEO will require similar widespread participation. Efficiency is a prime objective of business and widespread participation in decisionmaking can reduce efficiency in the pure input-output sense; without it, however, implementation may be much less effective and the results are also likely to be much less acceptable. Therefore, taking a wider view of the efficiency criteria, participation is a necessary part of both the inputs and outputs. Otherwise neither the process of the inputs nor the distribution of the outputs will be deemed equitable.

FOREIGN DIRECT INVESTMENT AND PRESENT UNITED STATES FOREIGN ECONOMIC POLICY

In its policy formation, the United States Government has not recognized the existence or usefulness of different forms of international companies. The studies of the Departments of Commerce and Treasury on the subject of multinational corporations and the representations of the State Department at international bodies have failed to recognize the special capabilities of the ME’s in supporting international industrial integration. In fact, United States policymakers are in principle opposed to recognizing distinctions among types of companies because they maintain a basic policy of nondiscrimination among types of business and among regions. Of course, other policies do involve such discrimination, as evidenced by the differing treatments of the petroleum companies and those businesses dealing with Eastern Europe, Russia, Cuba and China.

In line with its policy of nondiscrimination, the United States Government has formulated policies toward the international companies based on functional activities rather than on the results of overall operations in support of major policy objectives such as international integration. These separate functional policies are themselves formulated and implemented by different agencies within the United States Government, and there remains an absence of coordination among them. The inability of the United States Government to see distinctions among the types of international companies is reflected in testimony before Congress and in governmental reports. See, e.g., U.S. Dep’t of Commerce, Policy Aspects of Foreign Investment by U.S. Multinational Corporations, 7-17, in 1 THE MULTINATIONAL CORPORATION: STUDIES ON U.S. FOREIGN INVESTMENT 1 (1972).

Antitrust regulations are extended abroad to prevent their frustration at home. Taxation is imposed to assure equity between the treatments of foreign and domestic
are policies toward antitrust violations by any of the international companies which do not take adequately into account the different forms or relationships among companies overseas. During the regime of capital controls, no distinctions were drawn among the types of companies, though distinctions were applied among different categories of countries depending on their degree of development. Controls over the exports of goods and technology have been applied without reference to the types of companies involved or their effects on the integration of the United States economy with that of the rest of the world. The Treasury formulates tax policy, along with Congress, without regard to the impacts on different types of companies and their contribution to the United States balance of payments or international integration.

One overall policy of the United States Government toward foreign direct investment involved its role in accelerating economic growth in the developing countries. This policy began essentially in the early 1950's after the Point Four program under President Truman. Its primary orientation was to help remove obstacles to private investment in the developing countries, and considerable emphasis was given to the role of the private sector in the Alliance for Progress under the Kennedy Administration in the early 1960's. Throughout the 1950's and 1960's private foreign investment was relied upon to provide a stimulus to development especially in the industrial sectors of Latin America, Africa and Asia, and United States policy placed emphasis, within the lending programs of the World Bank and the Inter-American Development Bank as well as the International Finance Corporation, on stimulating the flow of private direct investment.\footnote{\textsuperscript{46} See J. BEHRMAN, CONFLICTING CONSTRAINTS ON THE MULTINATIONAL ENTERPRISE 8-22 (1974).} Congress itself stressed in many of the aid bills that priority should be given to the development of the private sector. However, Congress was especially cautious not to stimulate industrial activities in the developing countries which would be competitive with United States industry, especially in its domestic markets. Therefore, foreign direct investment was seen as a means of assisting the foreign countries within their own economies but not as a means of integrating the international economy.\footnote{\textsuperscript{47} Despite the institution of a government program of investment guarantees in 1948, private United States direct outlays averaged only $700 million a year during 1947-1955, mostly to Canada and Latin America. In 1956 and 1957 the outflow was $2 billion and $2.5 billion respectively. By the early 1960's, however, the government began to change its signals: the business community was in effect told to adopt two poses—to concentrate its investment in the developing nations and restrain itself in the industrialized countries. See Behrman, \textit{Foreign Investment Muddle: The Perils of Ad Hocery}, 1 COLUM. J. WORLD BUS. 51 (1965).}

These policies were also implemented out of a separate agency, ill-coordinated with the others.

\footnote{\textsuperscript{46}See, e.g., 113 CONG. REC. 20,226-27 (1967) (remarks of Rep. Bingham regarding the Inter-American Development Bank).}

\footnote{\textsuperscript{47}Reporting to the Securities and Exchange Commission on foreign affiliates is regulated to satisfy domestic investors. Exports of technology and goods are controlled to prevent "enemy" countries from obtaining them through foreign affiliates. The flow of funds to and from affiliates is regulated to minimize adverse effects on the United States balance of payments. See J. BEHRMAN, CONFLICTING CONSTRAINTS ON THE MULTINATIONAL ENTERPRISE 8-22 (1974).}
In the reverse direction, United States policy is to maintain an open economy, receiving investment from other countries in virtually any sector. Excepting coastwide shipping, media, banking and manufacturing of products for the defense establishment, virtually any foreign company can invest directly in any activity that is legal for United States citizens. The basic principle which the United States Government has adopted is that of noninterference in foreign investment decisions except where they contravene United States law as applied to United States citizens, and therefore it extends national treatment to foreign investors. The United States would like to have the same principle applied by other countries, and it has achieved agreement within the OECD that this should be the case for national policies of the members. Another part of the OECD Guidelines on which the United States Government insisted includes a restriction on the incentives and disincentives to be applied by governments, so as to prevent a warping of investment decisions away from the structure dictated by free-market criteria.

Basically, the posture of the United States Government toward foreign direct investment in the past several years has been defensive, in the sense of trying to prevent encroachments by governments on the ability of corporations to invest where they wish and to operate as they like. Although the United States accepts the right of other governments to put constraints on entry and operations of foreign companies, it accepts this in principle only when it is in line with similar constraints on domestically owned companies, and it rejects the use of incentives to warp the decisions of companies.

There has thus been no effort to stimulate one kind of foreign investment over another despite the fact that the different types produce quite different results as to the future nature of the international economy. Given the fact that it has no positive stance towards promotion of any particular form of private investment in any one area of the world, the United States Government is presently reduced to holding what it can in preventing further encroachments on the activities of private companies around the world; this gives it a stance essentially of noncooperation when other governments feel they have problems with the way in which the companies are operating or expanding. The United States’ posture is, therefore, not fully appreciated by other governments and appears to be increasingly out of phase with the mounting pressures for a new international economic order. The United States Government should take initiatives in helping the rest of the world make the necessary assessments and tradeoffs so as to use the capabilities of the ME’s effectively. To date it has not taken such a stance, and it will probably require some reorientation of priorities and reorganization of foreign policy formulation to make such a shift.
REDIRECTION OF UNITED STATES FOREIGN ECONOMIC POLICY

In order to redirect United States foreign economic policy toward the utilization of the ME's special capabilities, several changes will be required. The first is the placing of the highest priority on achieving international economic integration by rules associated with the creation of the NIEO, rather than the continued effort to impose the post-World War II principles. The second change would be toward a recognition that the most important issue will be the nature of the international division of labor, as exemplified by the location of industrial activities rather than the pattern of trade. And the third major shift will be toward an effective cooperation between business and government in assessing the necessary tradeoffs and in determining the means by which the ME's can be most effectively used.

Integration

Unless there is a concerted effort on the part of major countries, the world will continue to move predominantly toward economic disintegration or national self-sufficiency. The pressures for doing so are intense, and the obstacles to a cooperative system are large. The price of continued disintegration is likely to be conflict, which will be more difficult to resolve than the problems of cooperation.

The rewards of cooperation will be a more effective use of resources, resulting from specialization that reflects an agreed interdependence. Obviously, integration will not lead to pure specialization on the part of any of the national participants, since most of the needs of the peoples of the world have to be met locally. But a cooperative system would permit specialization without a feeling of dependence. It is only within such a setting that the special capabilities of the ME can be utilized most effectively. It would encourage specialization among the affiliates of the enterprise while at the same time distributing the benefits equitably. In addition, the diversity of ME's, and competition among them, would locate parts of each industrial sector around the world, and governmental guidance would achieve an acceptable distribution of industrial activity.

Industrial Policies

In order to use the ME's, the United States Government will need to recognize that the prior emphasis on trade and payments as against investment will have to be reversed. In a world of expanding foreign investment, trade will follow investment rather than industrial location following the forces determining the pattern of trade. It is fairly clear now that many of the industries can be located in many different countries and be effective in serving both local and international markets. This is especially

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16This point is more fully developed in J. BEHRMAN & H. WALLENDER, TRANSFER OF MANUFACTURING TECHNOLOGY WITHIN MULTINATIONAL ENTERPRISES (1976).
true under ologopolistic structures where many of the purchases and sales are intracompany rather than on a "free market."

Consequently, governments have come to recognize that the primary question is how to attract and build up an industrial base, poles of development, out of which trade can be developed and foreign exchange earned. These developmental poles also attract secondary and tertiary industry and therefore additional investment, both domestic and foreign. Once governments set their minds to determine the best ways of distributing industrial activities around the world, and yet keep these principles open and flexible enough to permit creativity and innovation, we can expect to find concerns over trade patterns falling into secondary or tertiary positions in foreign economic policies.\textsuperscript{49} Similarly, it is likely to become easier to obtain agreement on international monetary questions and the stability of foreign exchanges, since the basic equity of the international system will already be determined. Without such a determination, the concern for equity gets shunted into mechanisms such as the international monetary system and the General Agreement on Tariffs and Trade, where countries evidence their concern over the symptoms of inequities, rather than over the realities.

Focusing on the underlying problem of the location of industrial activity and the international division of labor will relieve the need to impose a variety of interferences, such as quantitative restrictions, so as to warp the patterns of trade to protect or stimulate specific industrial sectors. Similarly, the advanced countries should be more willing and able to adjust their own industrial patterns so as to permit entrance of the developing countries into specific industrial sectors such as textiles, automobiles, electronics, chemicals and mineral processing.

Once this second shift is made, with the United States taking a positive initiative to recognize the underlying problems of the location of industrial activity and opening an appropriate dialogue, the adversary posture of many of the countries of the world should diminish. A more forthcoming and cooperative attitude is likely to grow in its place. The initiative remains with the United States, however, given its role as the source of much direct investment and technology.

\textit{Business-Government Coordination}

Even the United Nations Conference on Trade and Development (UNCTAD) Secretariat recognizes that a cooperative international system can be effectively developed only if it embodies "complementary action both by governments and enterprises."\textsuperscript{50} Efforts by governments to dictate what the ME's do will always be limited by the ability of the enterprise to

\textsuperscript{49}See Behrman, \textit{Sharing International Production Through the Multinational Enterprise and Sectoral Integration}, 4 L. & POLICY INT'L. BUS. 1, 28-30 (1972).

opt for less constrained activities and locations. Thus, if international operations are highly restricted, the ME's may simply revert to primarily domestically-oriented operations. Only a cooperative determination of what is feasible and attractive to the enterprises is likely to prevent such frustration. Their dedication and efficiency is to be desired, even though final control may rest with the governments. It will be desirable, therefore, to have continuous consultation between governments and the enterprises, setting the rules under which the latter will operate in pursuit of governmental goals.

Presently, there is an inadequate structure within the United States Government for acquisition of industry views on alternative policies and approaches.\textsuperscript{51} The Department of Commerce is inadequately structured, oriented and respected; State Department officials at several levels have retained a suspicion of the motives and operations of the international companies; Treasury's role cannot elicit the greatest candor from the companies, and many AID officials have remained skeptical of the contributions which the private sector can make to economic development abroad. Therefore, not only must policy priorities be set from the highest level and carried out through the organizations, but also the various departments must be organized so as to seek and utilize the inputs from business itself.

For their part, not all TNC's have shown a willingness to play by the rules, and few are adequately organized to receive, assess, appreciate and respond to governmental initiatives for the creation of an appropriate dialogue.\textsuperscript{52} Most of the communicative arts of the TNC's are utilized for "public affairs" or "public relations," asserting the view of the corporation on issues which affect it. Little emphasis is placed on a flow of views from the external environment into the decisionmaking process of the companies, altering its orientations or operations; the few companies which do have such networks are clearly exceptions. No less ineffective are the industry or trade associations which seek to speak on public issues. Their organization is too complex with many diverse views of their members, and only a few have a significant standing with top government officials; they have no standing with foreign governments.\textsuperscript{53}

Business itself, therefore, will have to reorganize its channels for communication, placing a higher priority at top levels on government-

\textsuperscript{51}For the most part, the sole input the the government is through the rather informal Washington representative/international who transmits company viewpoints to legislators and civil servants. Only a few international companies have a Washington representative/international, however. See P. Cherrington & R. Gilien, The Business Representative in Washington (1962); Johnson, The Washington Representative, Mich. Bus. Rev., May, 1971, at 6.


\textsuperscript{53}A singular exception is the Business and Industry Advisory Committee, attached to the OECD, through which companies and various organizations speak on issues coming before that organization. However, there is relatively little formal business input into the agencies affiliated with the United Nations or into the various United Nations commissions themselves.
business communication on the new rules for the international economy and their implementation. One of the mechanisms for accomplishing this would be the creation of a new business group which would coordinate and stimulate dialogues between the TNC's and foreign governments, so as to enhance the appreciation of the latter of the abilities of the TNC's and the tradeoffs which would be necessary in improving their contributions to the interest of the host governments. Still wider interests, for example, labor, consumer and ecological interests, must also be included. Some business-government dialogues presently take place on an *ad hoc* basis. What is needed is a more concerted effort to explain to governments, especially in developing countries, how the international companies operate and the constraints under which they make their decisions. If the rules are to be changed, a careful assessment should be made beforehand of the effect of various changes; otherwise, what is sought is not likely to be achieved.

**Conclusion**

The concerns of governments over the spread of the multinational enterprises and other types of transnational corporations has led to continuing complaints and efforts to constrain their activities. The purpose of the foregoing analysis has been to demonstrate that these complaints would be best met by a positive attitude of redirecting the ME's to pressing problems in the international economy. If this were done, many existing complaints would likely fade away. An appropriate code of conduct would simply be written into whatever arrangements were made for international integration or for the use of such companies respecting special problems, such as the development of the seabed. In addition, complaints about interference by the United States Government through the companies would be reduced, since the degree of participation would already be determined by the new rules for the international division of labor and the role of the multinationals therein.

Similarly, pressures to unbundle the contributions of the TNC's would be dissipated in the recognition that the packaging of TNC contributions is a signal contribution to their efficiency.\(^5\) Attempts to force joint ventures on ME's would cease in the face of recognition of the value of its integrating activities. And, concern over restrictive business practices would be diminished by prior agreement as to the way in which particular arrangements were to be carried out—such as the production consortia with Eastern European countries. Concerns over the types of technologies transferred and for support for indigenous research and development activities would be assuaged by agreed provisions concerning these activities. Arrangements for exploitation of the seabed or for the development of

regional integration within a particular industrial sector can more easily and effectively follow.

In sum, a more positive and forthcoming attitude, focusing on the use of ME's in international industrial policies would divert the attention from the surface phenomena or symptoms. Efforts to treat these problems by "codes of conduct" will leave frustration and dissatisfaction because the underlying problems will not be addressed. Attention should be directed to the goals of the NIEO and the role of the ME's therein, so as to achieve both efficiency and greater equity in the international economy.