Multinationals and the National Interest: Playing by Different Rules

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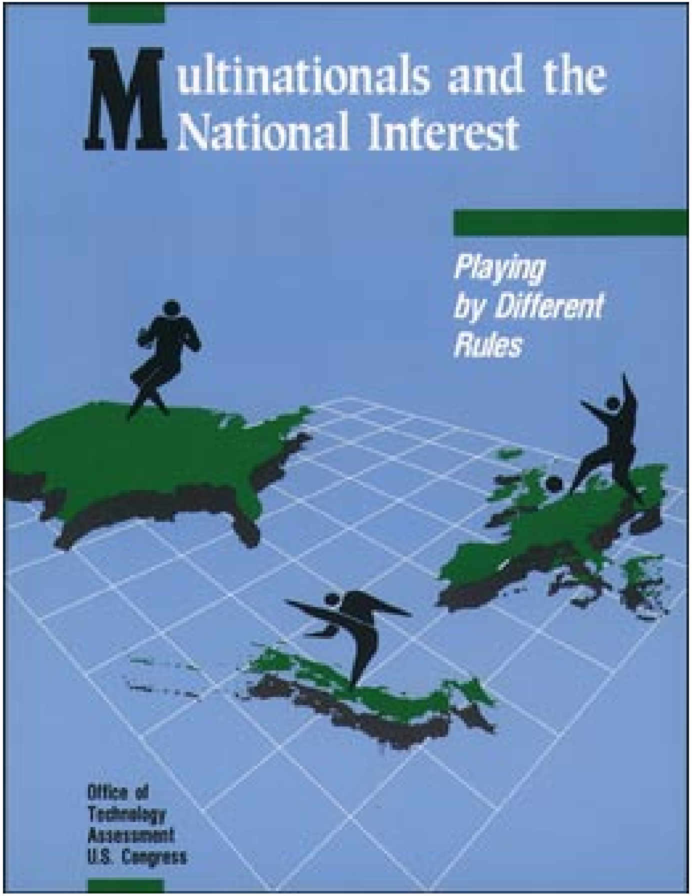

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Foreword

Over the past 25 years, technology differences have steadily decreased among competing firms of different nations. The technological superiority of an IBM, AT&T, or Boeing has been offset by the rise of capable competitors worldwide. The traditional U.S. advantages of privileged access to broad, deep, and liquid capital markets, as well as large economies of scale and scope, have similarly leveled off.

These changes reflect major shifts in the structure of the world economy. In the broadest sense, the globalization of business, communications, and transportation is transforming the post-WWII system of international trade and investment. At the same time, profound asymmetries have developed in the rules of different nations that influence and regulate the activities of multinational enterprises (MNEs).

In the post-cold war period, the structure of multinational industry is evolving far more rapidly than the rules that govern its conduct. The policy challenge is to manage and defuse escalating trade frictions in ways that promote growth and ensure a fair and sustainable distribution of advanced technology and manufacturing assets among competing national economies. MNEs are central to this process because they are international conduits of technology and goods and services; they also provide the quality jobs and capital that support economic growth and high standards of living.

The interests of MNEs, however, do not always conform to those of the United States. The United States wants MNEs to conduct core business operations here, to interact with local firms to create employment and wealth, and to retain the benefits of that wealth for U.S. citizens. But MNEs are understandably less concerned with advancing national goals (which may conflict among different nations) than with pursuing objectives internal to the firm-principally growth, profits, proprietary technology, strategic alliances, return on investments, and market power.

Surely there must be some balance or compromise that can be reached between maximizing efficiency at the level of the firm, and the need of host governments to ensure that firms act in ways that contribute to national well-being. Although companies and governments may pursue different objectives, there is no irreconcilable incompatibility between the interests of MNEs and those of nations.

This assessment was requested by the Senate Committee on Commerce, Science, and Transportation and the Senate Committee on Banking, Housing, and Urban Affairs. This is the first of two reports, It is intended as an introduction to and overview of the issues that affect multinational firms and the U.S. technology base. The final report, to be published in 1994, will present additional analysis and policy options related to issues raised in this report.

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