Appendix B: Summary of the First Multinationals Report (September 1993)[1]

In the post-cold war period, the role of multinational enterprises (MNEs) in the world economy is evolving far more rapidly than the rules that govern their operations. 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. Multinational enterprises are central to this process because they are international conduits of technology, goods, and services. They also provide quality jobs and capital that support economic growth and a high standard of living.

The foreign affiliates of MNEs control a substantial portion of the world economy, perhaps as much as one-quarter of all economic activity in their host countries. In 1990, the last year for which complete statistics are available, worldwide sales of foreign affiliates in host countries reached an estimated $5.5 trillion as compared with approximately $4 trillion in total world exports of goods and services. Because they are both important and powerful, MNEs evoke a wide range of concerns from home governments, host governments, rival firms, and strategic partners.

Intensifying competition among firms in almost every sector of the international economy is changing the structure of multinational industry. At the same time, increasing competitiveness concerns and trade frictions among nations have led to a heightened awareness of the activities of MNEs. Because MNEs are the major force in international trade and are deeply enmeshed in local economies, they are influential in national politics and often essential to the industry of nations.

Congress is concerned about MNEs for several reasons. Significant asymmetries in the national policies of the major trading nations have developed, which may ultimately undermine the post-WWII system of international trade and investment. At the same time, the globalization of business and intense competition in many industrial sectors threaten to increase trade friction among nations to unmanageable levels. As tough talk on trade escalates between the United States and its principal trading partners, pressure builds

[1] U.S. Congress, Office of Technology Assessment, *Multinationals and the National Interest: Playing by Different Rules*, OTA-ITE-569 (Washington, DC: U.S. Government Printing Office, September 1993).

for a coordinated response from Congress, the Administration, and U.S. business leaders.

As a further complication, the distinction between foreign and U.S. companies is breaking down. As U.S.-based MNEs commit ever more resources to foreign affiliates, and foreign-based firms produce and invest in America, the question of what constitutes an American company for purposes of public policy becomes even more critical. The rapid expansion of the number and scope of international strategic alliances among MNEs adds complexity to this already difficult problem.

The answer to the policy question of what should constitute an American company is tied not so much to the ownership or home base of particular MNEs, but rather to how a firm affects the well-being and standard of living in the local and national communities where it operates. In this view, MNEs should be considered American if and when they act in the national interest, and as American companies, they should be entitled to a higher standard of consideration.

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 investment, and market power.

The present system of international trade and investment can be characterized as one in which the interests of nations and MNEs have been drawn too tightly (as in Japan) or, conversely, have been allowed to drift too far apart (the U.S. case). This is the result of basic asymmetries, both in the different national systems of policy that regulate trade and investment, and in the organization of business (and business practice) within the Triad of modem industrial economies.

Atone extreme, the United States has permitted and encouraged foreign companies to take advantage of extraordinary access to its markets for trade and investment purposes. Accordingly, foreign affiliates in the United States account for a significant share of total U.S. assets, sales and, to a lesser extent, employment. At the other extreme, Japan has restricted foreign investment and imports, and has permitted foreign MNEs limited access to its markets, typically only through joint ventures with Japanese partners. Foreigners have often found it extremely difficult to invest in Japan, whereas Japanese investors have found man y opportunities abroad.

The policy questions turn on two issues: 1) how to achieve a rough balance between the need of MNEs to achieve global efficiency on the one hand, and the need of nations to retain technical and industrial competitiveness on the other; and 2) how to achieve an equitable and sustainable distribution of advanced R&D and manufacturing capabilities among competing economies. Greater coordination among the advanced industrial nations is probably required to harmonize the rules of multinational trade and investment.

PRINCIPAL FINDINGS OF THE FIRST REPORT

1. The policies and actions of governments may be decisive in determining which MNEs prosper in global competition. At a minimum, they will influence both which competitors will succeed and where state-of-the-art technology development and manufacturing take place.
2. Excess capacity and increasing competition among MNEs are leading to consolidation and shakeout in many global industries. A coherent system of international trade, investment, and monetary polices has not emerged to meet the challenges of the global economy.
3. Broad asymmetries in the policy regimes of the major trading nations have developed--especially market access, foreign direct investment, financial, and industrial policies related to the activities of MNEs. These asymmetries, when combined with major shifts in the global economy and protectionist responses to them, con-

tribute to increasing trade frictions and tensions in international relations.

4. Public policies and private sector initiatives have combined to restrict foreign direct investment in some major trading nations to a level far lower than that of others.
5. Governments remain influential in dealing with MNEs. The U.S. government, however, has opted to minimize its influence over many aspects of MNE behavior in the United States. This attitude, as reflected in government policies, is in stark contrast to Japan and several EU member states.
6. The modem MNE is a highly flexible and adaptable form of business organization. MNEs configure and reconfigure their operations to meet diverse requirements, including those imposed by different governments.
7. U.S.-based firms no longer dominate the list of the largest MNEs. This decline reflects in part the relative decline of the U.S. economy and the rise of Japan. Of the 500 largest MNEs in the world today, 157 are based in the United States, 168 in Europe, and 119 in Japan. In the late 1960s, 304 were U.S. companies, 139 were European, and 37 were Japanese.
8. Many MNEs are increasingly multi and less national than in the past; there appears to be a growing divergence of national needs and the needs of these MNE organizations. This finding is less true of Japanese and some European-based MNEs, where companies tend to retain a stronger national identity.
9. For an increasing number of firms, multinationalization represents a strategic response to a changing financial environment characterized by rising international capital flows, more open capital markets, expanded financing options, and volatile exchange rates.