THE ROLE OF MULTINATIONAL FIRMS IN ASIAN ECONOMICS

John Fayerweather

One of the striking features of the last half of the 20th century is the emergence of the multinational industrial firm as a major element in the world economy. In the first half of the century, international business largely consisted of trade in manufactured goods and raw materials along with a substantial amount of investment in petroleum and mining. Although these activties have continued on a large scale since World War II, they have been overtaken in magnitude by direct investment in manufacturing facilities by multinational firms and the complex distribution and financial structures supporting their industrial operations. While precise current data are not available, it appears that in 1970 the assets of these corporations totaled from $110 to $120 billions and they account for around $200 billion of sales per year. This is a tremendous volume of economic output exceeded in magnitude only by the gross national product of two countries— the United States and Russia. Furthermore, the growth of the multinational firms seems to be in a general range of 10% per year, significantly greater than the overall growth of the world economy, so that their proportionate role is increasing steadily. According to one prediction 75% of world GNP will be controlled by multinational firms by 1990.(1) I suspect this is an extreme figure but it accurately predicts the future importance of these firms.

In light of these basic facts, the role of the multinational firms in the

Author: Professor of International Business Graduate School of Business Administration, New York University. This paper was announced by himself at the Academy House on the 25th April.

(1) Howard V. Perlmutter, *The Megafirm and the Global Industrial Estate Academy of Management Proceedings*, August 24-27, 1969, p.73.

economies of every country in the world deserves the closest attention. My purpose in this paper is to sketch out in broad terms the nature of that role in Asian economies. I will look first at a few basic concepts which identify the character of the role which multinational firms perform in the world economy. The key aspects of Asian economies which relate to these roles will then be outlined. Finally, I will analyze the major features of the constructive role which the multinational firm may perform and the problems which will be encountered as it pursues this role.

Functions of the Multinational Firm.

In broad terms the multinational firm has emerged in modern society because it is uniquely qualified to perform certain socio-economic functions required by the world in the current era. The essence of these functions lies in the benefits of specialization, integration, and related economic interchanges in the manufacturing sector of society. These benefits are achieved through three main types of functions: transmission of resources, cultural change and grobal organization(2).

The general concept of transmission of resources as the function of international business has been well known for centuries. Since early times international traders have served mankind by moving goods from countries of relative abundance to places where needs existed. The special role of the multinational firm in the resource transmission process lies in its particular capabilities for the needs of our times. Broadly we may classify the resources which can be transmitted as consisting of raw materials, labor, capital and skills. The multinational firm has proved effective in transmitting each of these, but its special role lies in its capacity to blend the transmission of all of them and in its superior competence in the skill transmission aspect. It is well recognized today that technological and managerial skills are the

(2) This section is a brief summary of the conceptual framework presented in *International Business Management*, John Fayerweather, N.Y.: McGraw-Hill, 1969.

key to industrial progress. The transmission of these skills from countries where they are farthest advanced to those which can utilize them effectively is thus a key element in international economic exchange. Consultants, educators and others may play a role in this process. However, it has been amply demonstrated that the integrated industrial organization is a superior institution for this function.

Cultural change is a less conspicuous function but in the long run it may be of comparable importance to the transmission of resources. As a result of the intensive attention which has been given to economic development over the past two decades, many people now recognize the significance of cultural attitudes in economic activity. In the field of business, we preceive the importance of such things as social status, personal motivations, communication patterns and the like. There is a general feeling in many countries that some degree of change in these cultural attitudes is desirable to facilitate economic progress. I emphasize the word "degree" because we also recognize that there are difficult problems here in determining which cultural values should be retained and which should change in each society. In moving towards this objective, the presence of multinational firms with organizations anchored in different cultural systems can be beneficial.

The third, and to my mind the most important function of the multinational firm is its capacity for organizing industrial activity on a world-wide basis as distinguished from the nation-oriented approach of domestic business. Valuable economic advantages of efficiency and effectiveness may be achieved in modern industrial endeavors through geographic specialization of certain activities and systematic structuring of relationships between specialized units. Two aspects of operations suffice to illustrate the value of this function. One is research and development. The concept of specializing research and development on a particular product in a single location and then making the benefits of the R&D work available throughout the world-wide organization are readily apparent as compared to duplicating research and development in a large number of countries. The second is the development of efficient logistics systems in which manufacturing of a product is confined to a limited number of low-cost sources with distribution on a grobal basis. The multinational firm is proving increasingly competent in these two phases of global organization as well as related unification of finance, personnel and marketing activities.

Performance of the functions of resource transmission, cultural change and global organization is sufficient explanation for the social value which lies behind the rapid growth of multinational firms in recent years. However, to complete the picture of the impact of this institution on modern society, we must also note two areas of serious conflict which are inherent in its activities. As it pursues its functions which are basically useful to host societies, the multinational firm inevitably encounters some degree of conflict with the national interest and nationalism of these societies. The conflicts with national interest sometimes concern very sensitive matters like national security, but more commonly they are essentially a part of the basic process of division of the benefits of economic exchanges associated with the transmission of resources. They appear specifically in negotiations over such matters as levels of taxation, remission of profits, magnitude of licensing royalties and so forth. There is nothing unusual about conflicts of the nature. They are the very essence of commercial activity which has existed from the dawn of civilization. Unfortunately, however, they often are more difficult to work out in this area because they involve unequal institutions—the multinational firm and the host government—and because the whole field is so new that traditions of negotiations and patterns of settlements have not had a chance to emerge as they have in simpler types of commercial relationships. They are further complicated by the frequent presence of strong nationalistic feelings.

Nationalism is a matter of attitudes as distinguished from the tangible matters associated with national interests. To varying degrees the people of all countries today feel desires to support the integrity of their nations and protect it from the incursions of outsiders. Nationalism is basically a very constructive force facilitating the development of integrated social, political and economic systems essential to human progress. Unfortunately, however, it contains the roots of inherent conflict with the multinational firm. In the performance of the three functions outlined above, the multinational firm must inevitably penetrate the national society to some degree—exercising some amount of control over national affairs and extracting some element of profit in the process. The nationalistic attitudes oriented to protecting the nation state instinctively are aroused against these control and profit extracting activities.

I think it will be readily recognized that this conflict is of a similar order to the problems in the world political area of achieving some degree of sacrifice of political independence in the interest of political stability and peace. We have arrived at a time in civilization when the nation state is no longer adequate as the highest order of political institution. The affairs of man have become so interdependent on a global basis that a higher level of coordination is essential. The United Nations, the World Bank, the International Monetary Fund and other institutions represent steps towards political and economic coordination. The multinational firm is already beginning to provide an institution for this higher level of coordination in the industrial area. Ultimately there must be some transition in political attitudes so that nationalism accomodates itself to the presence of the multinational firm along with other grobal institutions. This transition, however, as in the case of all forms of political evolution, will not be easy and we therefore most expect continuing tension in conflicts between nationalism and the multinational firm.

Asian Economies

To assess the significance of the multinational firm in Asia one must have some picture of the characteristics of economies in the area. I make no pretense of being an expert on Asian economics, so I will not delve deeply into this subject. However, as an observer of world business developments Ihave sufficient picture of the key elements necessary for purposes of this paper. Three elements seem to be of prime importance.

First, there are obvious characteristics of Asian economies in their resource endowments as compared with other regions, perticularly Europe and North America. The most notable feature is the abundant supply of labor resources. On the other hand, it appears that the economies are capable of absorbing effectively a substantial inflow of skills and capital which are available in greater supply elsewhere.

Second, one observes that between the Asian countries themselves there are resource differentials of substanial magnitude. For example, the high level of skills in Japan and the increasing tightness of labor supply there contrasts sharply with the modest level of industrial sills and ample labor supply in Indonesia.

Third, the industrial discipline, competence and growth stemming from both private industry and government capabilities vary greatly. Japan again appears as the front runner with some other countries like Korea and Taiwan rapidly gathering momentum while others still seem unable to master the social and political skills necessary to sound industrial progress.

The Multinational Firm and Asian Economies

The initial phases of interaction of the functions of the multinational firm with the chacteristics of the Asian economies are already past history. Looking at the nature of this history and the trends of current developments, we can make some guesses as to the direction in which events will move through the remaining years of the 20 th century.

The participation of multinational firms in Asian countries in the years immediately after world War II was largely limited to bilateral resource transfers with emphasis on industrial development for local consumption in the host states. Through subsidiaries, joint ventures and licensing arrangements, companies provided skills and, to varying degrees, the capital used to develop local manufacturing plants. These plants served local needs, most often simply taking over markets which had previously been supplied by imports from their parent countries. Since this type of activity was geared to local demand, the geographic distribution of participation tended to be heaviest in the largest countries and those with the best developed economies, notably India and Japan.

Starting in the late 1950's, a new phase began which is only now beginning to assume large proportions. That was the establishment of operations in Asian countries designed to supply exterior makets in a manner integrated with a global logistic system. Much of the credit for the initial impetus for this phase must go to Asian enterpreneurs, particularly the Japanese, whose aggressive penetration of Western markets demonstrated the capabilities of Asian industries as supply sources. Quite rapidly, the multinational firms recognized these capabilities and started adjusting there own operations to make effective use of them. The initial efforts were largely concentrated on procurement on a contract basis in Japan. But currently we observe a substantial use of fully owned supply plants in other countries particularly Korea, Hong Kong and Taiwan.

Looking toward the future, I would suggest that the present role of multinational firms in Asia is just a small beginning of something which will grow much larger. This growth will carry with it both much greater benefits and more significant problems. I base the prediction of much greater activity on the increasing need for two of the functions of the multinational firm. First, there is every indication that the resource differentials between the Asian countries and Europe and the United States are growing greater rather than smaller. There are no signs that the labor supply differentials are shrinking and there is every in dication that the more industrialized areas will continue to produce a steady flow of technological and other skills useful to Asian countres.

Second, and perhaps more important, will be the much greater employment of complex logistic systems with heavy emphasis on use of Asian sources of supply for the rest of the world. Currently the multinational firms are only just acquirings of skill in use of this sort of complex system. But if the past is any indicator of the future, one must assume that once competence in a new form of industrial organization is established its employment will expand rapidly. Competition will inevitably play a powerful role in this process. The multinational firms got into use of Asian sources because of the Japanese competition. As their own competence advances, competition between themselves will rapidly force them farther in that direction. Hopefully, a further facilitating element will be greater strength and stability in more Asian countries. The notable progress of this nature in Korea in the past decade is a good indication of what we might expect in countries like Indonesia and perhaps even Vietnam before too many years are past.

A second important expectation is the probability of a continual process of shift in patterns of activity by multinational firms in Asian economies. An illustration from the history of industry in the United States is useful as background here. The manufacturing of cotton textiles was first established in the north-eastern states where ample waterpower, adequate skilled labor and sufficient capital were available. In the first half of this century manufacturing started to shift to the southern United States where labor resources were more plentiful. By 1950, cotton manufacturing had virtually disappeared from the northeast. Some serious transitional unemployment problems were experienced in this process, particularly during the 1930's. Today they have largely been overcome because of the great growth of the high-skill electronic and related industries which now dominate the northeastern states' economies. In the meantime the U.S. textile industry has entered into yet a third phase as a steady volume of imports from Asian countries based on the very ample labor resources there begin to displace the domestic production.

There is every reason to expect that this sort of shifting pattern of industry will be experienced in Asia. Indeed there have already been a few small advance indications, notably, in the establishment of sewing machine and electronic plants in Korea and Taiwan in preference to location in Japan. It is not possible to predict the rate of this sort of transition or the particular locations and industries in which it will occur. However, I think that it is reasonably certain that it can be anticipated, because of the major differentials between the Asian countries which I have noted as well as the competitive pressures which will force multinational companies to constantly seek out the lowest cost sources of supply.

The increasing magnitude of the participation of the multinational firms in the Asian economies and the shifts in the pattern of this participation will contribute to the third feature which I would anticipate for the future. That is, an increasing level of tension in the conflicts with national interest and nationalism. These tensions will be experienced at two levels which to some degree present alternatives for concentration and management of tension by the host nations.

First, there is a level of tension between host-nation businessmen and multinational firms associated with joint venture and licensing arrangements. Assuming that the participation of the multinational firms in Asian economies will to a considerable degree be tied to global logistic systems, joint ventures and licensing arrangements pose critical and continuing operating tensions. Product specifications, delivery schedules, pricing terms and other aspects of the interchange of goods between Asian supply sources and the global distribution systems must be determined. Assuming dynamic and changing conditions on both sides of this exchange process, there would always be many issues to be resolved, even if there was a fairly stable flow of goods. The most critical tensions, however, relate to shifts in the flow of goods which can seriously injure the interests of local partners in specific countries.

Avoidance of these tensions is a major factor in the preference of multinational firms for full ownership of subsidiaries abroad where global logistic systems are involved. Many host countries for reasons of national interest and nationalism tend on the other hand to favor local participation. For this reason it is probable that joint ventures and licensing arrangements will continue to be quite common and the tensions that I have described will be more numerous and perhaps increasingly severe.

The second level of tension is that between the multinational firm and the host government. Where host nations permit companies to operate with controlled subsidiaries, they shift the level at which the tensions I have just described are experienced from the first level to this second level. That is, it becomes the responsibility of the national government to monitor the relations between the multinational firm and its subsidiary companny to assure that the national interests are being adequately served by the relationships between the two. In one sense this type of structuring is easier for the multinational firm to handle. On the other hand, the tensions that do occur may often be more severe and more difficult to resolve because government and business people often see the world through different perspectives. Two of my colleagues at New York University, Professors Boddewyn and Kapoor, and I have been engaged in studies of government business relations in Canada aud various countries in Europe and Asia. This undelying difference in orientation between the political, macro-economic viewpoint of the government officials and the business-management, micro-economic viewpoint of the multinational firm is a recurring theme complicating the basic issues of national interest involved in the tensions we have studied.

These types of tensions cast a gloomy shadow over the otherwise bright and promising future of relations between multinational firms and Asian societies. Knowing the distress which has accompanied such tensions in other areas in the past, we must devote our best efforts to minimizing the problems. I have given considerable thought to this matter myself as part of the research I am pursuing on nationalism and the multinational corporation. I am sure that the tensions cannot be easily resolved, but I do have some ideas which I believe are constructive. To a considerable degree the problems can be minimized by greater sensitivity and more perceptive action on the part multinational firms. When I am talking with groups of their executives, I tend to emphasize this side of the subject. When speaking to nationals of host countries, however, it seems more appropriate to emphasize the aspects over which they have a degree of control. Approaching the problem from this point of view I think there are two propositions which merit serious consideration. They concern nation-oriented problem solving and joint ventures.

My first proposition is that there is a heed to think less in terms of nation oriented solutions to business problems and to place greater faith in solutions based on a structure of international interdependency. It seems apparent to me that current history is proving emphatically that economic interdependency is highly beneficial to the members of countries which allow it to penetrate their societies. The benefits which Korea is gaining from the production of products and components for multinational corporations is visible evidence of the point I am making. This particular evidence will readily be accepted by most people. Unfortunately, however, all too many nation-oriented people stop at that point and seem unwilling to accept as basically beneficial the other aspects of a truely international, interdependent economic system.

I think that a strong case can be made for the proposition that a substantial relaxation of nation-oriented restrictions on international business would be highly beneficial to people everywhere. I must emphasize that I am thinking here not only of restrictions in the developing countries but also in industrialized countries including my own which is just as prone to nation-oriented actions as any other. It is difficult to present a tangible case for this proposition, particularly in a brief paper.Certain tangible facets of it can be pointed out, however. There are for example, the protectionist import restrictions of the United States and Europe which are every day depriving people in those areas of the opportunity to benefit from lower cost production of many types of goods from other parts of the world.

Another striking example is Canada, which is generally estimated to have a standard of living 20 to 30% below what it could have if there were no tariff restrictions between it and the United States. The high tariffs which Canada constructed with the intention of promoting industrial development in its country have resulted in a proliferation of small-scale plants with much higher costs than counterparts within the United States to the great detriment of the welfare of the individual Canadian. By the same token, many of the less industrialized countries are hemming in the activities of multinational firms by all sorts of restrictions on the flow of capital, personnel and goods resulting in relatively inefficient, high-cost operations.

In some cases, restrictions may serve a sound purpose, especially over a short term. For example, some special measures are often appropriate to help industries with a sound long-run future to get started in a country. My concern is rather with the larger and more lasting measures which originate in excessive preoccupation with the nation-oriented approach, an approach which seems to assume that the ideal achievement would be full national self-sufficiency. Everyone recognizes that goal is impossible but few people seem to be willing to accept that it is not even an ideal.

In approaching this obsession with nation-oriented solutions, I think we must recognize that its roots are firmly planted in two strong foundations. First, there are the nationalistic attitudes which grip people with a conviction approaching that of a religious faith. Members of most countries today have an underlying belief that their destiny will be determined by the strength and independence of their particular nation-state. This nationalistic conviction has great value in modern society because it assures the cohesion and unity of social, economic and political organization at the national level which is important for so many aspects of development. We must also appreciate the very strong historical roots which it has in most societies. The nationalism of my own country for example evolved out of a struggle for political independence, the overcoming of severe internal strains including a major civil war and other deeply emotional national experiences. It is certainly understandable that nationalism should be strongly felt in the heart of people who have endured so much to achieve political independence in recent years as is true in Korea and many other developing countries. However, while we should be fully appreeciative both of the causes for strong nationalism and the substantial benefits which it provides in modern social development, we should earnestly seek to recognize those points at which it becomes a hindrance rather than a help and try to restrict its impact on them.

The second fundamental impediment to greater acceptance of international rather than national-oriented approaches is the governmental structure of the nation state. I must immediately emphasize here that I am not making a sweeping criticism of all politicians, bureaucrats and others in governmental structures. The problem is not so much with individuals for there are many people throughout governments with an internationalist point of view. Rather the difficulty lies with the inherent objective of national governmental structures. Both by historical precedentand by the continuing dynamics of the governmental-political process, national governments seem to be forced to take an excessively nation-oriented approach to any problem. One need only look at the tremendous strains and impediments which have had to be overcome in the progross of the European Common Market to appreciate this fact. The European national governments are gradually adjusting to a system in which they are to a modest degree subordinate to a supra-national system but the progress is painfully slow. In other parts of the world far less progress in this direction is being made. People in the existing national government structures readily participate in international negotiations of various sorts. But the idea that some portion of their sovereignty and scope of decision making should be given up is so contrary to their basic tradition and philosophy that little progress is made.

As a result of strength of these forces of nationalism and adherence to sovereign control of national affairs by national governments, the efforts to contribute to greater international productivity and effectiveness by multinational firms are constantly impeded. Indeed one senses that progress which should be in the interests of members of individual countries often is achieved only by beating down the resistance created by nationalistic feelings and national governments. It seems important, therefore, to stress the value of trying to restrain and channel these two aspects of nation states so that their generally useful force is not detrimental in specific aspects of the operations of multinational firms. Considering their strength, we should not expect great progress in this direction but even small gains will be worthwhile.

It is well at this point to reemphasize the unique function of the multinaational firm discussed at the outset of this paper. Its capacity for worldwide organization of industrial activity offers for people of all countries substantial benefits from specialization and interchange among countries. The point I am emphasizing here is that we all may lose considerable benefit if this potential is frustrated by nation-oriented approaches which force multiantional firms to utilize high-cost sources, duplicate activities unnecessarily in many countries and otherwise fail to achieve efficiencies potentially available in a system organized on a global systems.

The second proposition which requires careful scrutiny is the strong pressure exerted in many countries on multinational firms to take local capital into their activities by forming joint ventures. There are, of course, sound reasons for forming joint ventures in certain circumstances. It appears to me, however, that in many countries nationalism and nation-oriented attitudes have resulted in general policies advocating joint ventures which are not in the best interests of either the multinational firms or the countries. There are two types of considerations here.

First, it is well to consider the adverse feelings of the multinational firms. In general they find joint ventures undesirable decision making where partners are involved which were noted earlier in this paper and the impediments to making global decisions where numerous partners in separate countries have to be considered. While these problems impinge immediately upon the firm, they do have a direct adverse effect on the host countries because they restrict the willingness of the firms to make investments and their capacity to make full use of their activities to benefit host countries. I know for example of a company which from the point of view of costs of manufacturing could be making greater use of a Japanese joint venture as a major source of supply for world markets. However, the fact that a local partner is involved deters it from this action with a consequent loss of employment and foreign exchange earnings for Japan.

The second set of considerations concerns the direct effect of joint ventures on the host countries. The gernal assumption in host nations is that local participation in the activities of foreign firms is benefilcia because it gives local capital an opportunity to invest in new industries; it gives local partners a chance to learn skills from the multinational firms; and it increases national control over the operations. It seems to me that these benefits have been overstated. The opportunity to participate in an investment backed by foreign capital is certainy highly beneficial to the individual making that investment. But from a national policy point of view there is every indication that in most countries there are alternative uses for domestic private capital and that this money might better be used for that purpose. It is certainly obvious that a joint ventures by its very nature reduces the portion of capital which must be contributed by the foreign firm, resulting almost always in a lower immediate contribution of capital to national development. It is true, of course, that over the long term the outflow of dividends is less in the joint venture alternative. However, the whole concept of private foreign investment rests on the assumption that capital brought in will be useful to the host nation over the long term. It seems logical therefore so far as possible to maximize the import of direct capital investment by multinational firms, giving them full financial responsibility for development of their operations. Local capital then should be channeled into projects for which foreign investment is not needed.

The assumption that joint ventures are preferable as a means of imparting skills to local partners is also doubtful as compared with fully-controlled subsidiaries. Multinational firms both from a public relations point of view and especially from a cost point of view are thoroughly convinced that the employment of local nationals to very high levels in their organizations is desirable. There may in some instances be cases where the transfer of skills to local nationals is better accomplished through a partnership arrangement. But essentially a transfer must always be to individuals regardless of the type of arrangements and there is good reason to assume that the number of individuals who will acquire skills is essentially the same whether joint ventures are used or not.

The question of control is more debatable but it would appear that the significance of ownership participation is exaggerated. As was observed earlier, it is inevitable that there will be issues of conflicting interests to be resolved between multinational firms and host nations. The essence of the control aspect of joint ventures would seem to be determining whether local parnters are sufficiently useful as additional agents for representation of national interests to offset the detrimental effects of their presence. This assumes that a local partner will seek decisions in relations with multinational firms which are beneficial to the national interests of the host country. That assumption may not be altogether accurate but it has substantial validity. In many matters such as pricing for sales between the multinational firm and foreign units and extension of credit from the multinational firm, the objectives of the local partner are likely to be much the same as those of the nation as a whole.

But is there substantial gain from adding the local partner as a further means for advancing national interest in relations with multinational firms. Even without the participation of local capital there are two powerful forces which protect national interests: the host government and general economic forces. The government power is most obvious. It can directly monitor and intervene in any aspect of the relations between a local subsidiary and a multinational firm. For example, if it feels that the pricing relationship is unrealistic, tax authorities have the power to assess taxes on the basis of realistically computed prices and thus exert just as strorg pressures for charge in pricing policy as a local partaner could. Likewise in financing questions, host governments by their controls over investment decisions and balance of payments transactions are in a position to directly intervene on behalf of national interests.

The effects of general economic forces are not so obvious but they are surprisingly effective. The proposition here is that a foreign subsidiary of a multinational firm on a wide range of matters acts to a large degree like an independent local firm. This is a result of a management team composed largely of local nationals seeking to develop its independent integrity and of the environmental forces working on it including local customers, labor unions, the government and so forth. Rather striking evidence of the effectiveness of this process in supporting host national objectives is provided by the Canadian example, Roughly 60% of Canadian manufacturing is accomplished by subsidiaries of foreign companies, most of them fully-controlled by U.S. firms. The situation has been extremely disturbing to Canadians. There have been several major Canadian policy statements arguing that so much foreign ownership was undesirable and substantial efforts have been made to get U.S. companies to transfer some portion of ownership of their units to local nationals.

However, when penetrating studies of the results of foreign control have been made, they have failed to demonstrate any significant loss to real national economic welfare attributable to foreign control as compared to Canadian control of industry. Two quite thorough studies have been made, one sponsored by a group of Canadian and U.S. businessmen and the other pursued independently by a Canadian professor[3]. Both studies showed that on the points about which foreign subsidiaries are typically criticized such as expansion of exports and development of local research

(3) John Lindeman and Donald Armstrong, *Policies and Practices of United States Subsidiaries in Canada*, Washington and Toronto: National Planning Association and Private Planning Association of Canada, 1960 and A.E. Safarian, Foreign Ownership of Canadian Industry, Toronto: McGraw-Hill, 1966.

and development, the foreign subsidiaries had done as much as or more than locally owned firms.

Another confirmation of the feasibility of relying on external forces to make subsidiaries function like local firms is found in a study just completed by the U.S. National Industrial Conference Board on *Intercompany Transactions in the Multinational Firm.* This study of 130 large companies showed that most companies "have adopted the basic principle of 'equity' in forging policy on commercial relations with their subsidiary companies abroad." The 'equity' concept means that prices and other transactions are determined so that both parent and subsidiary make a fair profit. This principle prevails, the survey shows because government actions (e.g. taxes) and internal management forces make it the most practical course.

Looking at this situation both in theory and in practice as observed in countries like Canada I believe that national interests can be advanced just as effectively by this combination of government intervention and general economic forces as by joint ventures. If that is so it will be much better to rely on them and to avoid the complications for multinational firms and the discouragement of investment by them which requiring local partners induces. I also believe that on the really difficult issues where nation-oriented objectives conflict with multinational firm decisions, it is substantially better to rely on the national government than or individual partners. I am thinking particularly here of the most difficult problems which relate to the flexibility of logistic systems along the lines already discussed. When a multinational firm, because of competitive cost forces, feels it must reduce the output in a higher-cost country and expand in a lower-cost country, I think it is much better that the problems be discussed with the host government than a with local partners. The former is in a far better position than the latter to take actions which will offset losses, for example, by finding alternative employment for workers. But more important the national government is in a position to take an overall view of such problems. The local partner inevitably can see only his personal loss. The government, on the other hand, can look upon such developments as a phase of an overall transition in the national economy, typically part of the upgrading of the skill and general quality of manufacturing inustries. It can also balance detrimental effects in an immediate decision against the general need to encourage foreign investment. Actually I suspect that in many such cases the presence of the local partner arguing his individual interest is likely to be more of a complication than a benefit for the government in working out a solution which is useful for the nation as a whole.

These comments about the merits of joint ventures are by no means conclusive. The subject is far too complex and the solid information too inadequate to permit firm conclusions. However, I do think that the analysis strongly suggests that the general tendency to put pressures on multinational firms to form joint ventures is quite questionable My conclusions are therefore similar to those of a report by the United Nations Secretariat submitted by the Secretary General to the General Assemply in 1966. The report entitled, *Promotion of Private Investment in Developing Countries,* urged a flexible approach on ownership by host countries. It observed that inflexible requirements for local majority ownership could create "a serious obstacle to desired foreign investments and a full transfer of technological and managerial knowhow."

In addition to those propositions about nation-oriented solutions and joint ventures, I would suggest a third means for reducing tensions between host nations and multinational firms. The really difficult situations seem to arise where the tensions are aggravated by nationalistic attitudes and political processes so that they get beyond the control of the immediate government and business participants. I am currently engaged in an intensive case study of such a situation involving the First National City Bank and the Canadian government. A problem of modest difficulty became exaggerated out of all proportion to its importance by unwise comments by the bank and politically motivated actions of government people. If both parties can restrain the temptation to incite emotional support for their viewpoints and be judicious in their public statements we will have made important progress. Beyond this we need time as I suggested earlier for traditions and patterns of negotiations to develop between multinational firms and host governments and businessmen. If we can have enough time to evolve peacefully in this direction, I am sure that in due course this sort of negotiation can be conducted in just as orderly and satisfactory a manner as the bargaining between a street vendor and a customer over a bag of rice.

Summary

Extensive participation by multinational firms in Asian economies has just barely begun to move over the past two decades. The initial activities undertaken to serve local markets and quite recently the establishment of plants to serve world markets are just a small beginning. In years to come there is every reason to assume that the multinational firms will participate on a much larger scale and that they will provide a vehicle for much greater integration of Asian economies with markets in the rest of the world. On the whole, this development will be greatly beneficial to all concerned in making the vest labor resources of Asia available to produce goods for other countries while capital and skills are brought in to serve the development of the host countries. Inevitably this process will bring with it greater tensions particularly between the multinational firms and the host governments. There is no assurance that these tensions will not result in serious difficulties but one must always hope that intelligent and responsible people on both sides will understand their nature and hold them within manageable boundaries.