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CENTER DISCUSSION PAPER NO. 53

TRANSATLANTIC REACTIONS TO FOREIGN INVESTMENT

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TRANSATLANTIC REACTIONS TO FOREIGN INVESTMENT¹

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¹An earlier version of this paper was delivered at the Annual Convention of the International Studies Association, National Academy of Sciences, March 29, 1968, Washington, D. C.

I. INTRODUCTION

To corporations, direct foreign investment is an instrument of international business integration: it is a means for acquiring ownership and control of enterprises in foreign countries. Government policy towards foreign investment can, therefore, be viewed in terms of approaches to multinational corporations. This paper examines the evolving practices of major Atlantic nations towards this new form of international business.

Perhaps no single statement poses the problem more succinctly than that of George Ball:

...the structure of the multinational corporation is a modern concept, designed to meet the requirements of a modern age; the nation state is a very old-fashioned idea and badly adapted to serve the needs of our present complex world.¹

His point is controversial and intriguing, and provides a useful starting point for discussion. Communications improvements are breaking down international barriers and integrating different parts of the globe. Corporations are reacting to the changing international environment by becoming multinational. Since they are developing international business structures faster than governments are evolving supra-national institutions, the process is beginning to cause strain and concern.

At the moment the international penetration by corporations is not very extensive and the problem is in no sense critical. But direct foreign investment is growing very rapidly and if it continues to grow at the rate of ten percent per year, as it has in recent years, the problem could become more serious. If

¹George W. Ball, "The Promise of the Multinational Corporation," Fortune Magazine, June 1967, p. 80.

George Ball is right in saying that the nation is an old-fashioned idea, badly adapted to the needs of our present world, then somehow it must be replaced by new political structures. In particular, and most important, the United States as a nation state must be transformed into something else. Merely to pose the problem of how this change will be brought about suggests the difficulties and complexities which lie ahead.

A. Problems Associated with the Multinational Corporation

Nearly every country feels it needs the capital, technology, and access to markets brought by multinational corporations, and many countries offer a variety of incentives to attract more foreign investment. Nonetheless, there is also an undercurrent of concern associated with multinational corporations, sometimes intense, more often not. In this essay we concentrate on these concerns as they are emerging in reaction to the rapidly changing contours of the international economy. There is no attempt to ask whether foreign investment is good or bad; instead we attempt to describe how certain countries currently perceive the phenomenon of the multinational corporation and the hesitant steps they are taking in learning to live with it.

To many countries, the multinational corporations is something of a new problem and there is much uncertainty about how to deal with it; general apprehension is found more often than articulated analysis. Its benefits are appreciated, but there is suspicion of its newness. In essence, the main concern is the locus of decision-making: countries fear that important decisions will be made outside their country or, if made inside their country, by foreigners. In particular, they are afraid of losing power to the United States. They fear that some decision "taken in Detroit" will shut down a factory in

their country. It is possible to identify a number of problems which keep recurring:

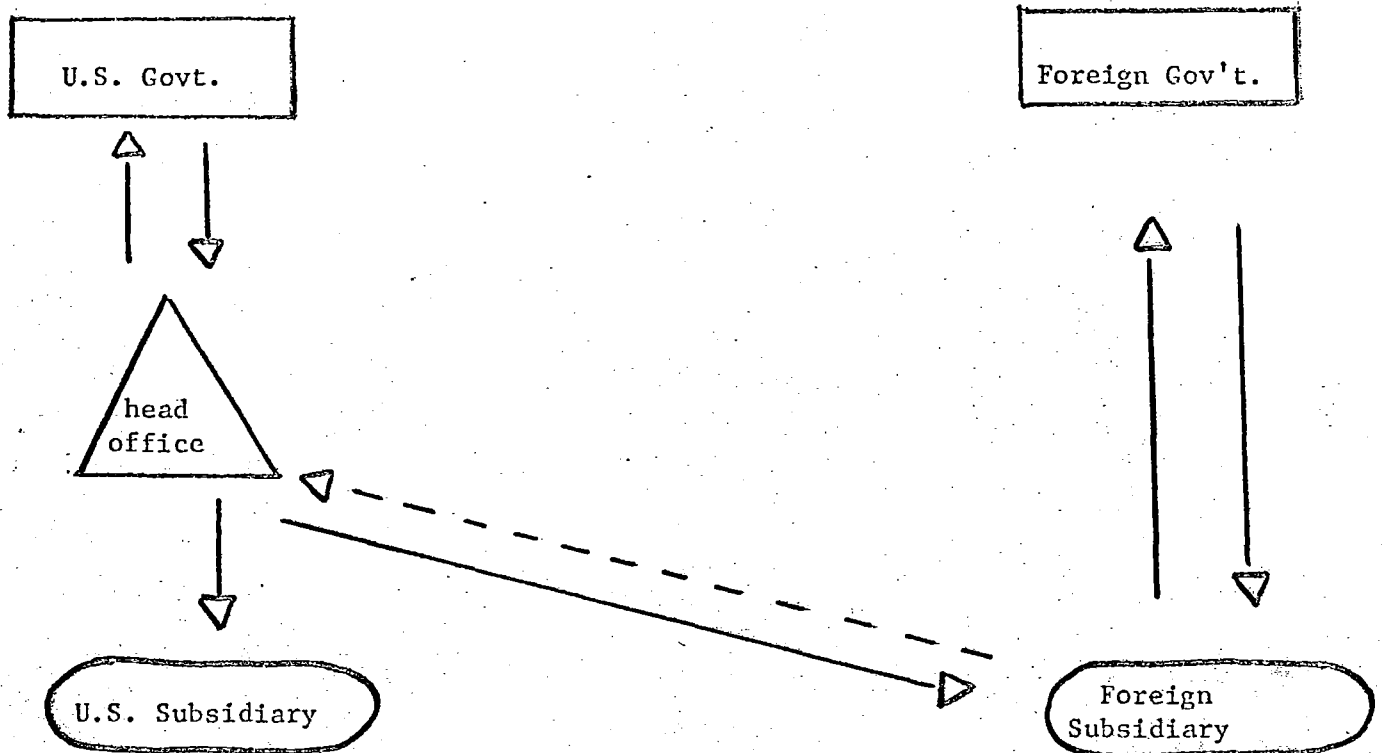
(i) The multinational firm is a medium for the intrusion of the laws, politics, foreign policy and culture of one country into another. This relationship is assymetrical for the flow tends to be from the parent country to the subsidiary country rather than vice versa. The issue of extra-territoriality with regard to such things as anti-trust and trading with the enemy is one of the main focuses of debate and concern.

(ii) Multinational corporations reduce the ability of the government to control the economy. Multinational corporations, because of their size and international connections, have a certain flexibility for escaping regulations imposed in one country. The nature and effectiveness of traditional policy instruments - monetary policy, fiscal policy, anti-trust, taxation - change when important segments of the economy are foreign-owned.

(iii) The multinational corporation tends to centralize research and entrepreneurial decision-making in the home country. Unless countermeasures are taken, the "backwash" effects may outweigh the "spread" effects, and the technology gap may be perpetuated rather than alleviated. Over-reliance on multinational corporations may cause the country to remain a margin rather than become a center.

(iv) Multinational corporations often occupy a dominant position in their industry. Countries are concerned that they will not get a fair share of production and exports. Decisions depend on the horizons and outlook of the head office management, which can be limited and biased. Each country is aware that other countries, including the United States, put pressures on the multinational corporation to produce, export, import or invest in a particular

1. THE MULTINATIONAL CORPORATION IS A LINK BETWEEN NATIONS AND A VIADUCT FOR TRANSMITTING PRESSURES FROM ONE COUNTRY TO ANOTHER.
2. THE MULTINATIONAL CORPORATION OPERATES IN A DECISION HIERARCHY WITH SEVERAL PEAKS.
3. THE GOVERNMENT OF THE PARENT CORPORATION WILL NORMALLY HOLD IT RESPONSIBLE FOR THE ACTION OF ITS SUBSIDIARY; BUT THE GOVERNMENT IN THE RECEIVING COUNTRY WILL NOT NORMALLY DECLARE JURISDICTION OVER ACTIVITIES OF THE PARENT.



way. A country without the ability to make its presence effective in the decision-making process may end up with a smaller share than otherwise.

(v) Natural resources industries are sometimes highly oligopolistic, and have only a relatively small number of firms. The price a country obtains for its raw materials is not set objectively in a free market, but is determined by bargaining and negotiation with the dominant corporations. Unless a country has the requisite knowledge and effectiveness, it may get a smaller than possible share of the benefits.

B. Mainsprings of Policy

The policies of governments towards direct investments are varied: they are generally suspicious but lack articulation; they are not systematic but ambivalent and changing; and they stem from many sources.

There are purely protectionist aspects. Governments foster their own national business by discriminating against foreigners at home and subsidizing their own industry abroad. The United States, for example, facilitates direct foreign investment by its corporations because of an assumed identity of interest between national welfare and the goals of its business firms. Other countries restrict American investment on the same grounds.

The tariff used to be the chief instrument for protecting national business from foreigners (although in some cases, notably Canada, the tariff attracted foreign ownership while protecting national industry). At present, many governments are surrendering this instrument as part of the trend towards trade liberalization but they have not completely lost their concern for promoting their national business. Other measures are used instead. Paradoxically, in many cases, liberalization of inflows of capital is thought of as a means to strengthen national business. Countries hope that the entry of

foreign investment will increase the efficiency and strength of their own business. Thus, at the same time as they allow a certain amount of foreign investment, they take steps to make sure that it does not attain a dominant position. The Japanese Report Concerning the Liberalization of Inward Investments by the Foreign Investment Council, for example, stresses the need during the process of liberalization for "counter-measures" to strengthen the capacity of Japanese enterprises and to insure that they will be able to compete against foreign rivals on an equal footing. Similar policies and attitudes are found in France and even in England.

Protection of the nation state is also a motive for controlling foreign investment. Too open an economy is seen as a threat to national existence. By closing it somewhat, the government seeks to preserve cultural and communal unity and to strengthen its control over the economy. Equally important is policy directed towards increasing the rate of technological change and the level of capital formation in the country. Are multinational corporations the best way to gain access to foreign markets and needed raw material? Does a country need its own national or multinational enterprise to achieve its economic ends or can it rely on foreign corporations? These questions are raised with increasing frequency.

At the deepest level it is impossible to separate economic and political goals. The corporation and the community, as represented by the nation state, operate on different planes of rationality. Sometimes the corporate plane, associated with the measuring rod of money is referred to as "economic" while the nation state's goals are labeled "political". It is possible to make this separation only when problems are viewed in the small. At the global

level, the major concern is the well-being of the population and, in this plane, economic and political aspects merge.

As a concrete example of this we might note that the attitude of governments towards foreign investment is frequently correlated with their attitude towards the proper balance between the private sector and the public sector. Those countries in which there is a heavy reliance on private initiative generally adopt liberal attitudes towards international capital movements. In those countries where the government plays a more active role in the economy, policy towards foreign investment tends to be more restrictive and stringent. Both types of governments defend their political economy on grounds of both politics and economics.

Finally, we might note that policies are often taken on an ad hoc, case by case basis; or, as the French say, one proceeds "coup à coup". This is a reflection of uncertainty about the problem of foreign investment and the lack of clear-cut simple solutions. For many countries, this is a relatively new problem. The feeling runs deep that close attention ought to be paid to multinational corporations in order to preserve national independence and to insure continued economic prosperity, but there are no clear ideas as to what must be done and which instruments should be used. The United States seems to prefer to see the problem handled by international anti-trust - an extension abroad of its domestic solution. Other countries tend to stress administrative control, but without a clear idea of what should be done and how. Japan is perhaps the exception in having a long-standing, clear, and well articulated policy towards foreign investment.

At present most governments are not facing up to the problem and tend to ignore the true nature of the multinational corporation. They do not see

it as a powerful force revolutionizing the economic and political structure, and inexorably reducing the autonomy of all nations. They regard it as merely an extension of nationalism and not as a supra-national phenomenon. They are, as George Ball puts it, out of phase with the dynamics of international business.

The United States often thinks of foreign subsidiaries as, simply, American firms operating abroad, and tries to project its national power through its foreign investment. It uses foreign investment to expand its political and economic power. It often seems to be unaware that the feedback created by the multinational corporation will limit its power as a sovereign state.

Host governments often act as if they were dealing with a domestic enterprise under their own laws, and behave as if the foreign ownership were incidental. They try to make foreign subsidiaries conform to national practice; they do not always succeed, precisely because the multinational corporation is a different being.

Few countries have evolved anything resembling a coherent policy statement' instead policy is marked by sporadic emotional outbreaks and ad hoc attempts to resist the intrusion of the multinational corporation into national life. Specific incidents from time to time, light up the issue: Ford's purchase of out-standing shares in a subsidiary in England which it had controlled for many years; Chrysler's increase in its ownership of Simca in France; the Mercantile case in Canada; the rumor of a takeover of a large Belgian oil company by an American firm; the refusal of an American subsidiary to fill an export order from Cuba. These specific cases are typically exaggerated out of proportion to their direct significance, as aggrieved competitors, radical trade unions, civil service frustrations and anti-Ameri-

canism arise simultaneously. The debate polarizes and the rhetoric becomes extravagant.

How are we to interpret these periodic flare-ups of concern we see in every country? The investigations of the incidents usually tone things down, and many view the problem as a wholly irrational matter. Through time a sanguine attitude is restored as the complexities and diffuseness of the discussion wearies the listener and massages him back to repose.

More likely the crises reveal some very basic aspects about the economic environment of our society; about the ways important decisions are made by private and public institutions, and the problems and possibilities created for nation states by the multinationalization of business. To label these crises irrational, irrelevant, or unimportant may be to deny ourselves significant insights about the world in which we live.

C. Machinery

An examination of the machinery used to control foreign investment indicates a number of shortcomings in horizons and perspectives on the part of governments. The decision on policy towards foreign investment is often closely associated with balance of payments considerations. Traditionally, the Treasury, Ministry of Finance, or Central Bank were the government agencies most concerned with foreign capital and they viewed the problem largely from its foreign exchange aspects. This led them to take too short-run a view, encouraging or discouraging foreign investment according to the state of the balance of payments in any particular years, without sufficient regard to the long-term effects on industrial organization.

The contrast between corporations and governments on this point is striking and ironic. The corporations typically have long-term horizons; they

do not invest for short-term profits, but in order to establish a basis for future growth. They deeply resent having to curtail investment at a particular point because of a balance of payments crisis. Governments, on the other hand, have often made decisions on foreign investment largely in terms of balance of payments, paying little attention if any, to effects on the structure of industry and the performance of the economy.

This is changing, however. The issues of industrial organization are coming more and more to the forefront and the machinery for dealing with foreign investment has been adjusting accordingly. In England and France, for example, it is now the practice for the Treasury and the Ministry of Finance, respectively, to consult with various other parts of the government, both formally and informally to ensure that the technological and structural implications of foreign investment are properly considered before a decision is reached.

Another problem is that Governments have tended to take too narrow a view. They have tried, for example, to control the foreign-owned firm within their country with little regard to what was happening elsewhere or to the policies followed by other countries. They concentrate on the activities of foreign enterprises within their border and do not pay sufficient attention to the world-wide context of the multinational corporation. In short, they have not fully come to grips with the fact that a subsidiary operating in their country is not an independent entity, but part of a world-wide corporation and that its activities are integrated, coordinated, and harmonized with the activities of its sisters and parent.

Again, the horizon of governments contrasts unfavourably with the horizon of the multinational corporations. The corporations are usually highly

sensitive to the multinational characteristics of their operations. Governments, however, have seldom come to grips with the fundamental problem of international affiliations. In dealing with foreign investment, they place the accent on the fact that a company is foreign-owned rather than on the fact that it has foreign affiliations. They ask, for example, that the foreign firm behave like a domestic firm though this radically contradicts the nature of a subsidiary. The subsidiary is part of a multinational corporate group and its actions must be coordinated with those of its sister and parent components.

Another limitation of much of the existing machinery for dealing with foreign investment is that it focuses on new investments, neglecting established enterprises. The foreign firm is scrutinized and evaluated much more closely at the time of entry than after it has been established. Once a foreign firm enters a country, it is subject to much less examination than it received on its initial application. This is in part due to the fact that in some countries foreign investment is a recent problem and the initial concern has focused on the upsurge of new investments. This is perhaps satisfactory so long as the foreign firm does not occupy a dominant position. Where it is very important in a sector, its behavior on research, exports and finance and its relationship with its affiliates become matters of continuing concern to the country in question.

It is quite clear that in many instances, the only way to deal with multinational corporations is through international cooperation. To date, however, such cooperation has been most embryonic in form.

(1) It has not been possible, for example, to get a satisfactory resolution of the problems of defining the limits of a country's control over foreign

business within its borders. Foreign business often receives better treatment than national business because it can call upon the home country for support. This is an especially important problem for underdeveloped countries. Harmonization is difficult because of the wide divergencies in the rules governing the rights of private property in the West from the attitudes in many underdeveloped countries. Even between developed countries, there is often no common view on what is meant by "retroactive", "discriminatory" or "due process".

(ii) On taxation problems, there is cooperation to avoid double taxation, but this is only a beginning. Some very real and important conflicts about dividing up the taxes paid by multinational corporations are beginning to appear and will increase as the multinational corporation grows in importance.

(iii) In anti-trust, the OECD is attempting to slowly build up bilateral and multilateral agreement on procedures for notification and consultation. There is hardly any attempt in sight on the question of harmonization.

(iv) The EEC provides an interesting example of the weakness of international cooperation. The Common Market countries have been unable to achieve anything approaching a common policy on foreign investment. The commission in Brussels has not even been able to obtain authorization for a study on the extent of foreign investment because of widely diverging attitudes on the problem.

II. THE UNITED KINGDOM

Although the United Kingdom has more inward direct investment, both absolutely and proportionately, than do the continental countries, she has, in the past, been less concerned with the difficulties, and more impressed by the advantages of foreign capital. Because of her "laissez-faire" traditions and her role as a major exporter of capital and a major financial center, the country has, for the most part, been committed to free international capital movements, except for regulations concerned with foreign exchange control.

To Britain, the dangers of foreign investment have been a distinctly secondary issue. The overall level of American investment in England is still not very high, and the United Kingdom's ties with the United States make her fear American "imperialism" less than the French. The country's chronic balance of payments problem has made her solicitous of foreign capital. Foreign investment is, therefore, welcomed for the capital, foreign exchange, technology, and competition it brings.

However, English attitudes are changing somewhat. The economic difficulties of the last twenty years, and the changing world environment have led to a re-examination of traditional attitudes towards the economy, the United States, and Europe. This changing focus has important implications for foreign investment. It would be misleading to exaggerate these changes at this time; but it is important to take into account a certain increase in concern and a certain emphasis on regulation that was formerly absent. The new hesitant steps are worth analyzing for the qualitative indications that they give of the problems the English perceive and the direction their policy may take if trends, regarded as undesirable, continue.

The British government's economic policy in the past has centered mainly on fiscal and monetary policy. Although this approach helped to achieve full employment, it did not provide sufficient growth or competitive strength. The new strategy involves more direct government intervention and planning to stimulate productivity and growth. New government institutions have been created and old ones strengthened to plan, to control wages and prices, to rationalize the industrial structure, to develop policies on restrictive practices and monopoly, to achieve regional balance, and to narrow the "technological gap". A natural concomitant of the expanded government role has been a greater degree of surveillance, supervision, and regulation of foreign investment.

The machinery for dealing with foreign investment can be briefly described as follows: all inward and outward movements of foreign investment require approval under the foreign exchange laws; any firm wishing to invest in England must file an application with the Bank of England, which acts as agency for the Treasury in this matter. The treasury's main concern traditionally has been to ensure that a sufficient portion of the total investment is financed from external sources, and that local borrowing associated with foreign direct investment is kept within reasonable proportions. A rule of thumb (modified when an investment is beneficial) is that 100 percent of the fixed assets must be financed from abroad.

Applications for foreign investment are no longer considered solely in terms of exchange control; the Treasury now consults other ministries which examine the applications from the point of view of their particular responsibilities. Each application also receives scrutiny from the sponsor-

ing department of the particular industry involved in order to evaluate the possible impact of the foreign investment on the economy's structure and performance.

Although many factors are now considered when a position is taken on inward and outward flows of capital, there are few firmly articulated ideas of what the proper policy should be. There are intermittent public debates on the subject, as well as continuous discussion by officials, and a certain amount of research on the impact of foreign investment. Cases are considered on their merit, and the principles behind the new policy, if that term can be used to describe the slowly evolving practices, are not publicly declared; it would be unwarranted to try to fit them into a rigid framework.

From time to time, in a number of very important cases, the government has required certain "assurances" before it would permit an extension of direct investment. An examination of these cases and the assurances that were required are useful to the understanding of some of the fears and apprehensions in the presence of the multinational corporations in England, as well as the ambivalent nature of the government's policies.

Two of the more important cases are the Ford Case and the Rootes-Chrysler Case. These cases received great public attention because of the strategic position of the automobile industry, its long tradition of labor difficulties and its importance in exports. In the former case, Ford was allowed to move from majority control to complete control only after it gave assurances on certain aspects of its performance: namely, that it would continue its major expansion program, continue to plough back a high proportion of the profits, maintain continuity in management policies, continue to obtain a high proportion of its components in the United Kingdom, and keep its exports high. In

the Rootes Case, Chrysler was allowed to purchase 30 percent of the equity on the condition that it would not attempt to acquire a majority holding without permission. A number of other cases (Trinidad Oil 1956, Phillips Pye 1967) could also be mentioned, and there may be more which did not reach the public eye.

On a qualitative basis, these assurances reflect the fear that Britain will be harmed by a shift in the locus of control. Ford justified the extension of its control on the grounds it would permit rationalization and integration of activity on a world-wide basis. This is precisely what multinational corporations are supposed to do. The British "assurances" represent an opposition to the basic principles of the corporation insofar as these assurances try to stop Ford from investing, sourcing, and managing in the way it feels most profitable.

The Rootes case illustrates the ambivalent nature of policies. Foreign investment was needed and feared. Rootes was in serious difficulty and in danger of bankruptcy and needed the strong backing that Chrysler could provide in capital and technology. No British source was available: the survival of Rootes would increase competition; and the industry already had major foreign investments. The deal was therefore allowed to go through but not before it was modified in a general and make-shift way.

The British on the whole accept the need for multinational corporations and take for granted the advantages of large size; they support merger and growth of United Kingdom firms and hope to develop their own multinational corporations. Like other countries, they do not seem to be fully aware of the implications for government policy when important sectors of the world economy come to be dominated by a few multinational giants, who can move

quickly across national borders. Should such a situation arise, it would mark an end to national seclusion, and would drastically change the relationship between business and the state. The British response to this changing international economic environment is, in general, ad hoc and pragmatic. The measures taken are hesitant steps in a confusing situation. In this respect, their policies lag behind the multinational corporations who are working on global strategies for dealing with the technological changes that are re-shaping international linkages.

III. THE UNITED STATES

The attitude of the United States toward foreign investment is influenced by practical and ideological considerations. The United States, along with other English-speaking countries, has traditionally been committed to the concept of free enterprise, which implies the freedom of each individual to use his economic assets as he prefers. This implies free capital movements on the international plane, and United States policy has been to encourage the removal of restrictions on foreign investment and to press for free and equal treatment of capital from whatever source on a non-discriminatory basis.

On the practical side, there is little conflict between this approach and whatever protectionist inclinations the government of the United States may have. The volume of inward direct foreign investment is small and foreign companies do not occupy a dominant or "threatening" position in important sectors of the economy. Most multinational corporations are American in origin, and policies to promote international capital movements are consistent with general policies to promote American national business.

Foreign investment is also seen as consistent with the goals of economic growth and development. The government assumes that, for example, direct investment in raw materials is needed in order to insure adequate supply, to avoid becoming prey to foreign monopolists, to guard against price fluctuations, and to overcome the difficulties caused by shortages of capital abroad, and risk aversion by foreign countries. To the extent that foreign direct investment achieves these goals, it promotes the health of the United States economy. Similarly, direct investment in manufacturing, which maximizes the quasi-rent for the parent company on technological and other advantages

and protects it from foreign competition, can also be seen as being in harmony with the general economic interest. Most important, direct investment, because it leads American corporations to establish connections in foreign countries and to obtain a direct linkage to developments abroad, encourages a cosmopolitan outlook and increases the availability to U.S. corporations of technological and other developments in foreign countries. This helps to guard the country against the dangers of isolation.

The encouragement to foreign investment by the United States is not unlimited, nor is the freedom granted to private economic interests unconditional. The government has placed restrictions on foreign investment abroad for balance of payments reasons and as part of anti-trust policy. There has always been in the United States a fear of large concentrations of capital and a suspicion of big corporations. The anti-trust laws are the most highly developed defense in the United States against uncontrolled economic power, and in a sense they define the American approach to multinational corporations. In several instances, the government has influenced and interfered with business decisions on foreign investment when it was feared that they would reduce competition in the industry and react badly on the American economy. The general American approach on the national and international plane is to keep direct government regulation and planning to a minimum, and to create an industrial structure conducive to desirable economic performance. Except for certain acts prohibited as illegal under the anti-trust laws, firms are allowed wide scope in their decision-making while government focuses on establishing a framework to encourage competition; (though this policy does not preclude high concentration.)

The United States, at present, is by far the most economically advanced country, as well as the leading political force in the world. This has important implications for its attitude towards the multinational corporation, because it creates the need to help less advanced countries, and to establish an environment which preserves the economic political, and social features that the United States regards as desirable. The motives for American involvement in other developed countries, and especially in underdeveloped countries stems from its humanitarian desire to help in a situation of inequality, its recognition of the dangers created by envy of its advanced position, and a dynamism inherent in American life which regards the lack of world economic integration as a challenge, and the unfinished business of helping the rest of the world master its material environment as a new frontier. The United States has developed a large and efficient mechanism for producing economic growth; it is a repository of knowledge and it has highly developed management techniques, advanced technology, and abundant capital. It is natural to expect that these resources could and should be used in a wider sphere than the continental United States. The question for American policy is to decide on the appropriate form.

In this context, the multinational corporation is seen as having a vital role in transferring American technology and capital abroad, and in acting as a catalyst to stimulate foreign enterprises and to

demonstrate new methods. The strongest advocates of the creative role of the American business abroad are the businessmen themselves; but in the last analysis, it is agreed by most officials that since the United States placed heavy emphasis on private initiative and decision-making at home it will also place primary reliance on foreign in-

vestment as the vehicle for promoting economic development and bringing about social and political changes abroad.

J. Anthony Paunch presents the problem this way:

The blunt fact - like it or not - is that the United States managerial capitalism is the one democratic force in being the one that can take the measure of Sino-Soviet capitalism in the drive for international capital formation.¹

This is no idle boast. Lincoln Gordon points to the reasons why neither trade nor aid is a sufficient instrument for foreign development.

No longer do we hold to the mechanistic analytical framework of classical economics with its image of atomic land, labor, and capital particles held together by the magnetic forces of pure economic rationality. In its place today we take a more realistic view which gives a central place to leadership by entrepreneurs in finding new ways to combine the factors of production for greater output.²

This belief in the valuable, if not indispensable, role of private business has an ideological counterpart. It argues that if other countries are to catch up to the United States they must emulate the basic features of the American economic structure: this means they must adopt a similar attitude to private investment. Naturally, it is realized that the system must be adapted to local circumstances abroad, but it is felt by many, that the fundamentals of free enterprise must be observed. Richard Robinson, an astute observer of international business notes that:

¹J. Anthony Paunch, "A Businessman's Philosophy for Foreign Affairs," Harvard Business Review.

²Lincoln Gordon, "Private Enterprise and Economic Development," Harvard Business Review, July-August 1960.

It would seem that there is a horrible urgency in making Western economic concepts internationally viable if man's dignity is to be preserved - and incidentally a profitable private business.¹

A national system is a mosaic containing legal, economic, cultural, social, and political aspects. A policy to encourage American investment implies, to some extent, a policy to export other elements as well.

The foreign penetration of American business has important political consequences for the United States. The multinational corporation weaves a tangled web which often involves the United States government more than the government intends. For one thing, the government is obliged to protect its business corporations, and cannot afford to be indifferent to its responsibility towards foreign investment. Moreover, there is a legal necessity to treat foreign investment as an extension of the American economy, and to subject it to the same rules and regulations as domestic assets. In American eyes, this extension is viewed as being natural and reasonable. The government cannot renounce control over its citizens and especially cannot permit them to evade American law and policy through foreign investment. In protecting foreign investment, the government has not attempted to set up colonial systems like the one that characterized Europe, but it is satisfied if there is law and order and equal treatment for American business.

The problem is often viewed in different terms abroad, partly because of emotional factors, and partly because there is no agreement on how to define basic terms; e.g., non-discrimination or non-retroactivity. This conflict of views and interests leads to political repercussion, and hence to political problems. Foreign investment abroad creates fears and resentment which reverberate on American foreign policy. Even if the United States

¹Richard Robinson, International Business Policy (New York: Holt, Rinehart, and Winston, Inc., 1964), p. 220.

regards it as an economic phenomenon, it is viewed abroad as a political phenomenon. The greater the contribution of investment, and the greater its impact, the more it becomes the focus of attention and a "problem".

Leo Model, in Foreign Affairs, describes the essential dynamics of the politics of private foreign investment. He explores the question of how the intrusion of American businessmen into a foreign country can bring about a nationalistic reaction which forces changes in American policy.

No country wants to see its basic industries controlled by foreigners - even by efficient and friendly foreigners. The social and political ramifications of foreign control over large segments of the economy affect investors, businessmen and technicians, competing firms, the banking and financial markets, and even the foreign policy of a country...The very fact that U.S. enterprises abroad are so large and so successful has generated a resurgence of economic nationalism - a mixture of mercantile protectionism with political overtones. ...The greater the extent to which U.S. companies dominate the economy of foreign countries, the greater will be the fear and resentment to which they give rise. If foreign governments believe that the operations of U.S. enterprise place pressure on their economy and foreign policies, they will inevitably decide to exert counter-pressure to neutralize the dominance of American firms. Such a game of pressure and counter-pressure cannot be in the long-run interest of either country.

If the United States adopts policies designed to permit private companies to assume and retain a dominant role in the economies of unwilling hosts, it will encounter resistance that will inevitably spread from the economic to the diplomatic spheres.¹

¹Leo Model, "The Politics of Private Foreign Investment," Foreign Affairs, June 1967, p. 648.

To counter this, Model advocates a change in American policy which, at present, almost automatically supports the foreign expansion of United States business. He advocates a policy of restraint to stem the tide of the multinational corporation and to mitigate some of the irritating features of its impact by eroding its dynamic integrating character.

Such a policy on direct investment requires great foresight and restraint by U.S. companies. In the long run, it is the only tenable policy because it is in accord with the economic interest of business and the national interest of both the United States and foreign countries. The overwhelming economic power of the United States is shown by the fact that some of our giant companies are larger than the entire economies of small but highly industrialized countries like Belgium and the Netherlands; they are incomparably larger than the entire economies of nearly all of the less developed countries. Economic power of this magnitude carries with it equivalent responsibility. If our companies use their power with consideration for the well-being of other countries, as well as for our own, they can be of tremendous help in creating a prosperous world economy employing modern methods of production. Otherwise their economic power will be a constant irritant in our diplomatic relations with the rest of the world and will ultimately defeat their own interests.¹

The problem in underdeveloped countries is, if anything, more severe.

Leland Johnson points out that

...despite its economic contributions, U.S. private capital is a source of resentment, conflict, and distrust in many areas of Latin America, and this situation is being exploited by extreme left-wing political groups.²

¹Leo Model, op. cit., p. 648.

²Leland Johnson, "U.S. Business Interests in Cuba and the Rise of Castro," World Politics, Vol. 17 (April 1965), pp. 410-59.

In analyzing Cuba as a specific example, Johnson, a cautious observer writing from a point of view sympathetic to business, concludes that

...the presence and character of U.S. investment in Cuba did play a role in Castro's ability to maintain a measure of popular support while simultaneously waging his propaganda campaign against the United States and moving toward the Soviet Union.¹

He notes that American foreign policy was seen to be motivated by the desire to protect government investment.

Quite apart from the question as to whether this explanation was actually the basis for U.S. government policy at the time, the critical point to remember is that the objective nature of relations between the United States and Cuba made it easier for Castro's followers, at his prodding, to believe that the motivation of the United States stemmed from a desire to protect its economic interests.²

The very presence of American business abroad is, thus, an important complicating factor in American foreign policy and by no means a necessarily positive one even from the American point of view.

¹Leland Johnson, op. cit.

²Ibid., p. 455.

IV. THE COMMON MARKET

The problem of American corporations in Europe is a subject of passionate controversy. Politics are mixed with economics and there has been no success in adopting a common attitude. Countries have different interests and different viewpoints not easily reconciled. Even if governments were to behave rationally, it would be difficult to come to agreement on the exact nature of the problem and the appropriate solution. In fact, the natural disagreements are intensified, because governments are myopic, and think in terms of short time spans and narrow geographic barriers.

The formation of the European Common Market reflects the realization that economic forces have outgrown the nation state; and the removal of trade barriers is already beginning to revolutionize the structure and location of production. Many believe that the full potentials of the change in economic structure made possible by the Common Market cannot be realized without a change in business organization. Just as the integration of the United States economy required the creation of national firms, it is argued that the integration of Europe will require, at the very least, the creation of European firms whose operations are not confined to one country, but span the continent. C. P. Kindleberger puts the problem forcefully and succinctly.

Economic integration probably necessitates the development of corporations that are equally at home in the various political entities party to the integration attempt...If the Common Market repulses the American giant corporations, and fails to establish European incorporation, the European movement may fall short of real integration.¹

¹C. P. Kindleberger, "European Integration and the International Corporation," Columbia Journal of Business, Winter 1966.

The creation of European firms has, however, turned out to be a slow and painful process for the fragmented European industry. The business enterprises of Europe are only slowly adapting to the new opportunities and are encountering numerous obstacles in their attempts to enlarge and expand to continental or global proportions.¹ Many firms are finding it particularly difficult to merge with firms from other countries and to consolidate operations across national frontiers. The European firms are, to some extent, caught off-balance by the rapid pace of technological change and many economic institutions are conservative and unadapted to the scope and scale of modern technology.

In many cases American firms are finding it easier to become "European", in the sense of integrating operations on a Common Market basis, than the European firms themselves. As strangers, they are less caught up in past antagonisms and are far more mobile. They have greater maneuverability and flexibility, and in addition, possess superior technological and marketing experience in the modern and rapidly growing sectors.

Another important advantage of American firms is their highly developed structure of business organization.² American firms went through a process of consolidation and amalgamation at the end of the 19th century in response to the railroad and the creation of the national economy. The creation of business units, straddling various regions of the country and various industries, led to the evolution of a highly developed corporate structure with a

¹The Common Market Commission for example, notes that at present there is no European corporate form and that the existence of six different national systems of corporate law provides a barrier to international business integration. It recommends that the six conclude a convention which will provide for the establishment of "Community-law Companies" able to operate freely and uniformly throughout the member countries.

²The evolution of the American Business corporation as presented here, is described in Alfred D. Chandler, Jr., Strategy and Structure (Garden City, New York: Doubleday and Co., Inc., 1966).

specialized head office concentrating on business administration and controlling the widespread empire. A further evolution occurred in the 1920's with the creation of the multidivisional corporation, a particularly flexible and dynamic form of business organization. This form permits the addition of new divisions and has in the general office "a large brain" whose specialized function is to concentrate on strategic aspects of growth and development. The American firm is thus prepared to cope with the problems of planning over a wide field in a way that many European firms, some of which are still at the factory stage of organization, are not. In addition the fact that many American firms have a long history of foreign investment has provided them with much experience in the problems of operating in several countries - an essential ingredient that many European firms lack.

The emergence of American firms within the walls of the Common Market having the advantages of size, structure, and experience, poses a threat to European business interests. The American firms, on the one hand, bring modern methods to Europe and, by intensifying competition, force European firms to modernize as well. On the other hand, the strength of the American firm often results in the defeat of the European firms, and the danger that the foreigners will come to dominate important segments of the economy. The competitive push towards efficiency is much needed, but Europeans do not want to see their own firms destroyed in the process.

The problem in Europe is how to keep things under control. In many quarters it is felt that the only way of meeting the challenge of the American corporation is to imitate it. There is, therefore, a great deal of emphasis on building European firms to match the American, by encouraging

mergers in some cases, and by improving European access to capital and technology in others. However, the creation of European multinational companies of giant size will be a slow process at best and it will take years for the Europeans to develop countervailing power of the magnitude required. The problem is thus one of finding a path of a long-run target keeping in mind the benefits of American competition but also the long-run implication that once a firm is established, it is difficult to dislodge.

In some cases, negative measures are used to restrict the expansion of American corporations, but this is fraught with difficulties. For one thing, it requires a common approach. France, for example, tried in some instances to restrict American penetration only to find that the American firm established itself in Belgium from which it could have perfect access to the French market. In renouncing tariffs, the government finds it has surrendered considerable power to protect its industry. Another factor is that, in many cases, the American firms are so strong in terms of finance and efficiency that they can only be resisted at great cost. In the Machine Bull Case, for example, the attempt to provide a "European solution" for the computer industry failed, and for the first round at least, the French government had to accept an American solution.

The new approaches replace negative measures with positive measures; i.e., the government attempts to stimulate national industry through various devices rather than restrict foreign corporations. The hope is that these positive steps will foster European industry fast enough to prevent too great an Americanization of European industry. Since restrictions on American investment taken by the United States government for balance of payments

reasons, also act to slow down American penetration, it is felt that this approach has a good chance to succeed in keeping American investment within reasonable proportions. The American investment in Europe is still relatively small, less than 5% of the total, and there is considerable leeway for finding solutions.

Should these measures not work, there is a good chance the governments will resort to negative measures. Belgium provides an interesting indication of what might happen. As a small country, Belgium has traditionally been outward looking in trade and investment. Several of its own leading corporations are multinational and have world-wide investment. Belgium has in recent years welcomed American investment as an aid in modernizing and reconstructing Belgium's industry, and has felt that the American presence provides a counter-weight to the tendency of the large countries to dominate the Common Market. Along with Holland, which is similarly situated, Belgium has been in opposition to French attempts to formulate a restrictive policy.

The liberal attitude of Belgium to foreign investment has proved, in a sense, to be skin deep. In response to rumours of an American takeover of one of its large corporations, the Belgian cabinet reacted with a law which makes it necessary to receive government approval of major investments in Belgium corporations. The welcome of foreign investors turned out to be more a matter of pragmatism than principle, and was in this instance dropped when a vital Belgian sector was threatened.

Several other incidents have also given some second thoughts to liberal European views. The turning towards European capital markets by American multinational corporations to finance their subsidiaries in recent years,

has competed capital away from European firms and caused resentment. The fact that American companies sometimes close down plants as well as open them, has also led to second thoughts, as have incidents of American extra-territoriality occurring for example, when subsidiaries are legally unable to fill orders for Cuba.

The European situation should be viewed as delicately balanced. The protectionist instincts in each country for its own business remain strong. The Common Market itself places strains on the government as national firms are exposed to outside competition and the powers of the nation state are eroded. The entry of American firms and, more generally, the problems of reconciling Europe with its external environment and the world economy complicates the problem further. As long as things proceed smoothly, in a "balanced" fashion no problem arises; but when things move out of line, fear and suspicion are engendered.

Finally, there is another problem, not much talked about, but still present beneath the surface in all European considerations. Though Europeans refer to American investment when they discuss foreign investment, each country is also concerned to some extent about investment from other countries within the Common Market. No country wishes to have its national business destroyed; each wants to assure for itself a fair share of European business.

The implications of free capital movements within Europe have not been fully thought out. "European" multinational corporations, no less than American multinational corporations, interfere with the autonomy of national governments in matters of economic and political policy and reduce national

truth may occur, and in a brief crisis a decision will have to be made:
whether to retreat to nationalism or to move towards supranationalism.

sovereignty. This should, of course, not matter in the spirit of European economic cooperation; but in fact the spirit of nationalism has not been completely destroyed in Europe and some European countries may resist the supra-nationalism implied by the modern corporation. Economic integration requires a change in both the form of business and the form of government. The more extensive is business integration, the greater is the need to transfer certain powers from the national governments to supra-national powers. Insofar as the state helps and regulates business, its scope must parallel that of the business sector. At a fundamental level national planning by states and international planning by corporations are incompatible. Similarly other institutions such as trade unions and political parties must be internationalized to cope with the wider field of operations of firms. Economic growth involves not just expansion but transformation.

Supra-nationalism is not an easy thing to achieve. The coagulation of economic and political forces does not take place in a vacuum, but is constrained by historical, political, social and economic links. It therefore tends to grow around existing centers and to result in uneven development. Although some countries gain, others lose, and nationalistic antagonism may be intensified in the process.

Business integration in Europe is just beginning and its effects have so far been marginal. It has thus been possible to ignore them up till now and this may be a strong conditioning factor favourable to further development. If business moves very fast, the main thrust of amalgamation may be over before the effects on sovereignty and independence become visible. A flourishing environment also facilitates the process of development since all regions share in the expansion. Should growth slow down, a moment of

V. CANADA

Canada is the country with the most experience of American direct investment and the American multinational corporation. The Canadian government's national policy was unique in many respects for a developed country, since it used the tariff to protect Canadian industry, and not Canadian businessmen. In most countries, protection of economic nationalism meant, by and large, the development of an indigenous business sector in manufacturing; in Canada the tariff stimulated industry but much of its growth was under the aegis of foreign corporations.

This was, in large part, out of necessity. Canada is closely linked to the United States and could not fail to become involved in the process of business merger and consolidation in the United States that led to the formation of the American national corporation. Just as regional units in the United States became integrated in the new corporations formed at the end of the 19th century, Canadian firms also found it advantageous to merge or be bought out by the American corporation. The tariff perhaps obtained for Canada a higher share of manufacturing than it might have obtained if there had been a customs union with the United States, but no important steps were taken to interfere with capital movements and prevent business integration.

The effects of this policy are difficult to determine. Canada has a high standard of living and, over the long run, has grown at about the same rate as the United States, remaining consistently at a per capita level about one-third less than that of the United States. The economy is closely related to that of the United States; market structure replicates the American structure and there is a large volume of United States-Canadian trade between

subsidiaries and parents. As far as one knows, the American subsidiaries operate at the same level of proficiency as Canadian firms, no worse and no better; they seem to have adapted, perhaps too well, to the Canadian environment and exhibit the same general productivity differential relative to the United States as do other portions of the Canadian economy. The major difference between American subsidiaries and Canadian firms is that the boards of directors and executives in the former are made up of Americans to a far greater extent than those of the latter. To what extent do the similarities and close linkages between Canada and the United States derive from their similar situations, and to what extent does it result from the national policy on tariffs and investment? This is a subject which has often occupied the minds of Canadians but has not been adequately resolved. Similarly, there is no consensus on the degree to which parallelisms in social, political and cultural behaviour are due to policy or environment. It would be inaccurate to say Canada is regretting its earlier decision, but it is fair to say that it is rethinking some of its aspects.

These questions have recently received close examination in the report of a government task force, Foreign Ownership and the Structure of Canadian Industry,¹ (known as the Watkins Report) which examined in considerable detail the political and economic implications of foreign investment in Canada and recommended major policy changes. The report is a probe rather than a conclusion, and does not represent Canadian policy, which is still undefined. It is a basis for discussion and should be interpreted not as what Canada is doing, but what some Canadians are thinking about foreign investment.

¹"Foreign Ownership and the Structure of Canadian Industry," Report of the Task Force on the Structure of Canadian Industry (Ottawa: Queen's Printer and Controller of Stationary, 1968), January 1968.

A brief examination of the main conclusions and recommendations of the Watkins report provides a conclusion to this essay. The report takes the position that it would be useful to reduce the share of foreign companies in the Canadian economy, but does not foresee a quick reversal of the present position, and even for the long run, it accepts as the norm a much higher involvement in multinational corporations by Canada than exists elsewhere. It also accepts international interdependence as a fact of the world, and although it is nationalistic in the sense that its main concern is with the Canadian nation, it is internationalistic in perspective and outlook.

The report argues that international solutions would in many cases be better than national solutions to these problems, but foresees that the political environment of the immediate future will leave international co-operation at a rudimentary level. Each country must therefore fortify its own hands with additional cards by creating national instruments of regulation, supervision and control.

The report focuses on the fact that foreign investment is primarily a question of large corporations and their role in the modern life. Two problems arise in this context. First, the multinational corporation links separate national states and is a viaduct for transmitting pressure from one country to another. Since every nation has certain general interests to protect from other nations, the government must take steps to block the intrusion from abroad of policies it feels undesirable, keeping in mind the severe limits on sovereignty and independence in the modern world.

Second, on the economic plane, the arena of large corporations is oligopolistic in character and not competitive. The government cannot rely on natural market forces to discipline private business into behaving

in a socially desirable manner. It must instead, at the very least, plan alongside the management of the corporation to add the general interest to the private interest in decision-making.

The report argues for greater Canadian participation by the private sector and the government, in order to convert the subsidiaries into multinational firms rather than simply American or British firms. To this end it recommends that subsidiaries sell shares in Canada to allow a greater Canadian presence in the decision-making process. It also recommends the creation of a special government agency under a cabinet minister to survey, and where necessary regulate, the behaviour of foreign corporations to ensure their harmony with Canadian economic and political goals.

The functions of this agency are: to counteract the pressures exerted by other governments on the multinational corporations; to regulate and scrutinize the performance of large corporations in dominant positions in order to make up for the absence of competition; to improve the terms on which capital and technology are inducted from abroad and to increase their benefits to the economy; to improve the access to foreign markets of Canadian production and to increase the returns to the country from its natural resources; and, to cooperate with other agencies and to take initiatives in devising multinational-governmental cooperation to cope with multinational corporations. In addition, the report recommends certain general measures to increase the efficiency of the Canadian economy through better enforcement of antitrust laws, better tariff policies, and through government help to rationalize, consolidate, and finance Canadian industries.

In conclusion, Canada, relative to other Atlantic countries, is perhaps more aware of the possibilities and problems of multinational business. If trends in foreign investment continue, other countries are likely to be confronted with the same types of problems as Canada, and may have to consider measures like those proposed by the task force.

VI. EPILOGUE: JAPAN

Japan provides an epilogue to this survey of Atlantic policies towards foreign investment and multinational corporations. Japan is fast becoming an important factor in European and American economics and business, and her strategy towards foreign investment offers an instructive contrast to the experience of countries discussed in this paper. Japan has had very strict control on foreign investment in the past but is now in the process of changing policy to meet new challenges.

The Japanese program for screening foreign investment is similar in a formal way to that of England and France. A special agency, the Foreign Investment Council makes the final decision on whether an inward flow of investment or technology should be allowed, based on the recommendations of a sub-committee on which various ministries are represented. The greater part of the work of examining and deciding upon applications is conducted by the responsible ministry, which is nearly always the Ministry of International Trade and Industry (MITI).

Japan's uniqueness lies in the fact that its policies on foreign investment and the import of foreign technology have been so very strict. In effect, it has almost completely excluded foreign capital, and it has often restricted inward flows of technology. The government has exercised strong pressure to encourage licensing rather than direct investment and, when it allows foreigners to participate in equity, it seldom permits a majority interest, and even then takes additional steps to assure that the Japanese partner has control.

In each case, the foreigner must bargain first with a "Japanese private company" and then with the government, which intervenes to make sure the agreement does not lead to Japanese dependence, upset the "balance" of the particular industry, cost too much, cause the Japanese firm to lose control, have limitations on export rights, etc.

An exception is found in a certain number of wholly owned subsidiaries, the so-called "yen based" companies. In theory, these are Japanese firms and should be completely free to expand as they wish. In fact, this need not always be the case. For example, I.B.M. had restrictions placed on its share of the market to ensure that Japanese business was not stifled in the computer industry. These restrictions are informal and backed up by the government's bargaining power through its control of taxation, etc.

Policy is now changing as reflected in the new liberalization program. So far, liberalization has proceeded only very slowly. Its pace is designed to ensure that there are no foreign take-overs of important economic sectors. Liberalization applies only to new investment and is permitted only in industries where Japanese firms are strong enough to compete effectively. The aim is to open up the economy to the extent that foreign competition strengthens, not destroys, Japanese industry.

These protectionist policies and attitudes found in Japan are of very long standing. Since Commander Perry, Japan has realized the need to import and assimilate foreign technology, and at the same time, the dangers of foreign investment. The examples of other countries in Southeast Asia demonstrated to Japan how foreign investment would lead to a loss of independence and caused it to take steps to protect itself from this problem. At first, the government

would not borrow abroad at all; later a controlled program of foreign borrowing was initiated, but under strict central government supervision to ensure that the country did not become over-indebted through unrestricted borrowing on the part of local agencies.

Overall, Japanese policy has been extremely successful. It has been able without direct foreign investment, to absorb technology from abroad rapidly, and to develop it on its own. In many cases, the Japanese were able to buy technology through licensing agreements at reasonable prices without surrendering control. In many ways, Japan is a special case which cannot be copied, but it clearly illustrates that it is possible to bargain for the terms on which technology is obtained abroad, and that it is possible to separate technology from control.

Perhaps the best way of understanding the Japanese case is to examine some of the elements which gave strength to its bargaining position and how these have been changing in recent years.

Japan's strong position on foreign capital is closely associated with its independent foreign policy. Now that Japan is seeking greater interdependence with other countries, especially OECD countries, there is pressure to open up its economy to foreign capital. OECD pressure (more specifically U.S.A. pressure) is one of the major forces behind the Japanese liberalization program. At the same time, the foreign policy imperative is also a reason for the slowness with which liberalization is proceeding. The problem of renegotiating its mutual security pact with the United States and the special problems of Vietnam and Mainland China place Japan in a delicate position with regard to foreign policy in the near future. There is a feeling that it will be easier to handle these problems without the complications of

multinational corporations.

A major factor in Japanese bargaining power is Japan's cohesiveness and national unity. Because of this it would be difficult, if not impossible for a foreign firm to operate in Japan except in close cooperation with Japanese business. Similarly, in joint ventures this helps the Japanese partner retain the upper hand. Because of a strong sense of national identity, Japanese businessmen could be relied on to protect Japanese economic interests. To some extent this is now changing, as Japan becomes more internationally-minded at home and better known abroad. The natural cultural safe-guards are becoming less strong than they used to be.

Another factor in Japan's negotiating position is the strong government control over the economy. The Japanese government has traditionally exercised very close supervision over Japanese business and, indeed, was directly responsible for fostering much of its growth. The government is both well informed and has the means of enforcing its will; therefore, it is in a strong position when dealing with foreigners. It can prevent Japanese firms from competing among themselves in bargaining and thereby weakening their position. It has the information to make sensible decisions on which technology is needed, what it is worth, and what "counter measures" have to be taken in order to ensure that Japanese research does not suffer as a result of the importation. The current policy of liberalization is weakening the government's bargaining power to some extent. It is subjected to great pressure to loosen its hold on the economy, and the anticipation of future liberalization encourages foreign firms to hold out for better terms.

Japan's large market is another bargaining point. It is sufficiently large for self-sufficiency in most sectors and, therefore, is not dependent

on trade other than raw materials. Through tariffs, the government can close the Japanese markets to foreign firms unwilling to make concessions. Like everything else, this cuts both ways: their large and rapidly growing market is a powerful attraction to multinational firms which are no longer content with royalty payments and a license but want a "fair" share. Japan is too big, they feel, to be left exclusively to the Japanese.

Japan also derives strength from the fact that it is a natural export base for Southeast Asia. As a leader in this area, it is an attractive partner for European firms. It was, and often is, to the advantage of the multinational firm to give Japan jurisdiction for this area of the world. But as other countries in Southeast Asia develop certain industries of their own, the Japanese monopoly will come under challenge and the multinational corporation will gain flexibility. Moreover, Japan is now trying more and more to enter sophisticated markets in industrial countries. In this case, it will have to bargain with the European and American firms on a very different basis than when dealing with Southeast Asia alone.

In the past, one of the reasons that Japan was able to drive so hard a bargain was that, in some cases, it was getting second-hand technology. This was its advantage as a late-comer to the industrial revolution. Now, as many sectors of its industry are pushing at the technological frontiers, it may find it more difficult to obtain advanced knowledge. This is certainly true in some cases, but it should not be exaggerated. Japan traditionally viewed a weak bargaining position as a signal to try harder and not as a reason to make concessions. Japanese strategy is to concentrate on developing their own technology which they can trade for advanced research from other countries. When necessary, Japan has been willing to wait a number of years and

do without technology rather than become dependent.

Lastly, much of Japan's bargaining strength stems from the fact that it had large firms of its own. Large conglomerate business groups have played an important role in Japan's development strategy and have made it possible, in some cases, to bargain effectively with multinational corporations. In the future, however, Japanese firms, if they are going to compete effectively, may have to change. Perhaps they will need to become multinational corporations themselves if they are to match strength with large Western corporations. This will raise a number of issues. Japan will have to accept multinational corporations at home and cooperate in their control and regulation. A totally independent policy will no longer be feasible. Japan will then no doubt be one of the more important factors in shaping international attitudes and machinery for multinational corporations.