

**Corporate Nationality Can
Matter A lot**

Stephen Cohen

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Testimony by Professor Stephen S. Cohen
Director Berkeley Roundtable on the International Economy (BRIE)
University of California, Berkeley

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Topic of Hearings:

"Who is US? -- Does Corporate Nationality Matter?"

Title of Testimony:

"A Dozen Proofs of the Existence of US and an Equal Number of Observations on Why The Age of the Global Corporation is Not Yet Upon US."

1. If we must promulgate a formal, general rule that is simple in form, universal in scope and automatic in its application, we must reject the assertion that corporate nationality does not matter. If it bears at least some relationship to influence and control, of course corporate nationality matters to U.S. policy. Simple, even trivial examples make this point: imagine Iraqi Corporations, or Soviet, Libyan, South African, Cuban, (and, depending upon how things work out, Kuwaiti) corporations controlling American television stations, newspapers, airlines, oil transport companies, or any of a broad set of militarily important technologies.

2. Similarly, as my emphasis on control indicates, ownership itself is not, and should not be the unique, defining consideration. Control, or even influence, is what matters. But the two are related. An assertion that they are not is an effort to update and internationalize the old Berle-Means argument of the total divorce between control and ownership. The consequences of the takeover binge on

Wall St. these past years should provide sufficient evidence to disprove such an assertion.

3. This raises a more general question. Should we equip ourselves with a capability to analyze the meaning, for American national objectives, of critical, direct foreign investments and to act flexibly to encourage (or discourage or harmonize) them with our national objectives? Or should we instead feel compelled to promulgate such a simple, universal and automatic rule? I think the automatic approach of deliberate ignorance and impotence is not in the interests of our nation. Other nations, such as Japan and the European states, do not think that such an approach is in their interests and they have instead created a capacity to monitor, analyze and influence international investments that shape the structure of their economies. We should do the same.

4. There are many reasons for not blindfolding ourselves and trusting the shaping of our wealth and power to a simple, absolute and universal rule. In this testimony I will try to list several of them. The first one is rather simple: The problem is not universal in its scope and invariable in its form. It is narrow in scope and depends upon very particular circumstances for its meaning. In substantive terms we are concerned not with all investments coming from all nations into all industries, but with direct investment into the U.S. by companies of Japanese and Western European nationality. A universal rule is not the best way to deal with just two places, especially as they differ so much one from the other. Our concerns focus far more on the Japanese than the Europeans. Furthermore, they focus even more narrowly to a small set of Japanese Kiretsu companies rather than companies of Japanese nationality in general. Finally, those concerns narrow to a reasonably small set of sectors and technologies: we

are more concerned with silicon chips than potato chips; with real time control than with real estate; with flat panel rather than fashion displays. Legislating absolute and universal rules to deal with a situation that is so far from universal and absolute seems to me to be the wrong approach.

5. We do not yet live in the age of the "global corporation" nor, in its logical concomitant, a world of politically undifferentiated economic spaces. Perhaps one day, perhaps soon, we will. But for the moment there are very few "global corporations" and there are relatively few economic spaces unconstrained by political considerations. For the present, we should continue to assume a real relationship between ownership and control. We should assume that all MNC's are not the same; all Home countries do not treat their MNC's the same; and all Host countries do not de facto set the same conditions for behavior on all MNCs.

a) Companies are not global: American MNC's are the most mature and the closest to global. Yet Commerce Department studies indicate that about 3/4's of the total assets of American MNCs are still accounted for by the parent operations in the U.S., with similarly high proportions for sales and employment. Despite much outbound investment these past years, that proportion has not changed much. For Japanese based MNCs, I would estimate the proportion of assets at the parent operation to be well over 90%. Even by these crude numbers, there is a long way to go before companies become global.

b) The weight and role of foreign based MNC's varies dramatically from Host country to Host country. In Germany and most of Europe foreign based MNC's occupy a big place in the economy and are able to behave a lot like nationals; in Japan they do neither. Substantial reciprocity is needed here before we can entertain the notion of global companies. In this particular debate Japan is not a trivial exception to an otherwise solid general rule. It is half the game.

6. As already indicated, ownership is not the defining consideration; behavior is. But behind behavior and shaping it lie influence and control. Corporate behavior -- what companies do and don't do within a country and with that country's people -- directly determines the wealth and power of that country. Ownership, we have learned in this era of takeovers, has a non-trivial relation to influencing corporate behavior. Also, when circumstances get exceptional, even the most global of Multinationals take orders from their home governments. The example of major U.S. computer companies in France in the 1960's is instructive. Their home government (our government) informally indicated to them to withdraw critical cooperation from President de Gaulle's Force de Frappe project. The consequences were substantial. France depended upon those good international citizens for critical inputs. The project failed. De Gaulle was furious and that reaction was part of his reason for withdrawing French forces from direct NATO command. The reaction of American based MNCs to the proposed Soviet-European gas pipeline a few years ago is another instructive example. Finally, the story of Mineba, the Japanese ball bearing company, purchasing and then systematically closing down U.S. capability in miniature ball bearings for what was presumably, its own strategic reasons -- despite assurances to the contrary (to the U.S. government in general and the Pentagon in particular) -- is another example that should give pause. Ownership and nationality often can matter.

7. Market structure will shape the meaning of a major foreign investment into the U.S. and should, therefore, shape America's response to that investment. The U.S. response to implantation by a major foreign based MNC -- whether through the purchase of an American competitor or through a greenfield investment --

should be one thing in a case where a small number of firms, all located in one country, dominate the world industry. It should be quite different in a situation where the industry is structured by a large number of companies, located in a large number of countries.

8. Similarly, some countries seem to permit a "market in companies" while others don't. The U.S. and UK figure most prominently in this list. In others -- most prominently Japan -- it is an extremely rare event for a foreign company to purchase a substantial Japanese company. Reciprocity in many such areas should be a pre-condition to a laissez-faire U.S. policy for foreign investment. We could set simple percentage targets for foreign owned manufacturing assets in that country. The ability of American based companies to purchase companies in particular foreign countries has little to do with rates of domestic savings. After all, U.S. based MNCs are investing very heavily abroad. It has to do with what is covered by open market arrangements and what is not in which countries. An automatic yes to Japanese companies buying U.S. companies is an automatic acquiescence to this asymmetry that belies the assumptions of global corporations operating in politically unconstrained markets.

9. Many MNCs behave very well in the U.S.. They do real research, real development, real production. They develop the next generation of product and even process. They not only create jobs, they improve the skill base of the U.S. economy. Because it is a good list, we can name some: Philips, Siemens, Thompson, Kawasaki Steel, to take only a very few, but non-trivial examples. Why do they? In part they find that it makes good business sense, etc. etc. But unless they can point to some potential imperatives from the U.S. side for investing in R&D here and not at home, they will come under great pressure

from their home governments not to "export jobs and R&D activities". The no-policy option for U.S. policy deprives our best friends of both the incentives to behave well, and the ammunition to deal with protectionist forces at home.

10. Why are we the object of so much DFI? Despite classical theories of comparative advantage, which in a world of politically unconstrained economic spaces should determine locational decisions for MNCs, most MNCs invest strategically. Their first consideration in foreign investment in rich countries is market access. The realities of limitations to access, and often more important, the prospect of further limitations has been a major cause of the recent wave of new foreign direct investment in U.S. manufacturing. The prospect of behavioral norms -- abolition of "screwdriver" plants has been the most important incentive for upgrading the value added and the skill content of foreign activities in the U.S.. This is equally true in Europe: witness the behavior of U.S. semiconductor makers these past two years in Europe. This is far from an ideal situation. But absent an international agreement abolishing all constraints on trade and investment --one that actually works in behavioral terms -- we should not ignore this reality.

11. Technology -- spillovers, linkages and predation.

This is a more complicated notion, and there is inadequate time in this presentation to develop the idea properly. In sketch form we can say:

In the modern world a nation's wealth and power is due much less to its natural endowment of minerals and soils than to its ability to diffuse new technology, both product and process, throughout its industrial system and to diffuse new skills and methods throughout its population quicker and more

extensively than competing nations, and to hold that relative advantage as long as possible. Then to do it again. And again.

Direct foreign investment can help or hinder that process. There is no a priori way to know which way it will cut. Everything depends upon the particular circumstances of the particular investment.

Some industries and technologies are particularly important carriers of innovation. New materials, biotechnology, optoelectronics, micro-manufacturing, semiconductors are some well known and important examples. In these cases, as in cases of world industrial structure careful attention should be paid to major foreign investments, especially those that might either reduce potential competition in that technology or in its upstream or downstream uses, or that might short circuit the U.S. domestic diffusion process. Here, there is no substitute for well informed judgement. A universal rule will not do. For example, a strong foreign company that is nationally independent from a national grouping that threatens to dominate the industry might be an excellent solution. Examples would include fostering cooperation with major European producers in our threatened advanced electronics sector. Similarly we may well wish to encourage Japanese investments into the U.S. where U.S. partners and/or U.S. nationals would benefit from a transfer of Japanese production technology.

If all technologies diffused through scientific literature and through commercial markets, and those markets worked well, than national boundaries would have no impact on where technology diffuses and at what pace. But they do not diffuse that way. Technology diffuses through communities, through hierarchies, through organizations as well as through markets and formal professional literatures. In different countries this all-important diffusion process takes different forms and operates through different channels. In Silicon valley,

technology diffuses as people change jobs; one can hire the technology. A good deal of what is interesting in commercial technology in the U.S. is developed in small and medium sized companies; one can buy them. In American Universities the latest in technology is provided to all comers. None of these channels is particularly important in Japan where technology tends to stay in large corporate groups until it comes out as product. Most European nations are closer to the U.S. than the Japanese model.

These fundamental differences in the institutional structures of the two countries do not represent differences of goodness and badness, and neither side seems willing to change such fundamental structures. But the asymmetry has enormous consequences. It is into this critical asymmetry that foreign investment enters and must be judged.

12. Defense and Information Media: There is a large consensus that national defense has its own special concerns. There is also substantial agreement extending back many years that control of national information media such as tv stations and newspapers should also be subject to special concerns and restrictions.

There is also a substantial and excellent literature on the defense issue, the most recent piece of which that I have seen is the Report of the Defense Science Board Task Force on Foreign Ownership and Control of U.S. Industry of June 1990. It covers these questions, from a national defense viewpoint quite well.