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Jeffrey L. Brown

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BOOK REVIEW

Multinational Enterprises in the West and East

Reviewed by Jeffrey L. Brown

Multinational Enterprises in the West and East, by Leon Zurawicki. Sijthoff & Noordhoff International Publishers, Alphen aan den Rijn, The Netherlands (1979); available in the U.S. from Sijthoff & Noordhoff, 20010 Century Blvd., Germantown, MD 20767. ISBN 90-286-0419-7. Pages xi, 207. $27.50. (hardbound).

Rarely outside the classrooms of Macroeconomics 405 can pages of algebraic equations be found devoted to the principle that by artificially controlling certain assumptions, an interesting result can be obtained. Programmed into the computer at the University of Warsaw are such assumptions as "buyers' decisions are taken at random,"[1] and "firms may reduce their deliveries and production to any extent . . . without any cost increase per unit of produce."[2] If the first assumption is true, even in a so-called commodity market, the purchasing departments of most multinational enterprises are grossly overstaffed. Admittedly the latter assumption fails to take into account economies and diseconomies of scale. The formula goes on and on and, assuredly, is of unquestioned value to someone sophisticated in such matters. For an international attorney concerned with multinational commerce, other aspects of the book are likely to be more relevant.[3]

In an overview, the book is devoted to a detailed description of the perceived characteristics and motivations of the Western multinational enterprise (MNE) and a comparison with those of the so-called Socialist common enterprise (SCE). In the atmosphere of competing demands, the author analyzes examples of East-West industrial cooperation and discusses the potential for East-West-South initiatives.

Jeffrey L. Brown is associate corporate counsel and director of international law, Johns-Manville Corporation, Denver Colorado. B.A., 1964, Penn State University; J.D., 1967, University of Denver College of Law.

1. L. Zurawicki, Multinational Enterprises in the West and East 13 (1979).
2. *Id.* at 17.
3. For an analysis and comparison of variable, marginal, and average costs and their effect on pricing, see Areeda & Turner, *Predatory Pricing and Related Practices Under Section 2 of the Sherman Act*, 88 Harv. L. Rev. 697 (1975).

An MNE, according to the author,[4] typically enjoys a dominant position in more than one national market. It exists in an oligopolistic industry characterized by "soft" competition in which defensive behavior is preferred to offensive reaction, and price competition is kept at a minimum by adherence to the "rules of the game." Global marketing and capital strategies of MNE's allow for geographical mobility: an international presence economically independent and outside of individual countries within which they operate. Through devices such as transfer pricing, management fees, royalties, research and development charges, and credit policies, profits can be allocated among related companies owned or controlled by the MNE in such a way as to maximize earnings within jurisdictions having favorable tax laws and strong currencies.

Exports are explained as a reflection of the higher fixed costs typical of large Western MNE's and their corresponding need to expand into other markets and utilize excess capacity. This applies particularly in a stagnant or highly competitive domestic economy.

Differences in cost of living (for example, raw material and labor) frequently dictate the desirability of foreign investment or supplement diminishing export markets. The author regrets that MNE's are better organized than international labor, but recognizes the difficulty of organizing workers in another country where the living standards are disparate and differences are accentuated by distance and culture.

The author adopts the position attributed to trade unions that in the long run, activities of MNE's tend to reduce employment opportunities at home even though foreign subsidiaries often provide a short-term source for exports of components, materials, and intellectual property used in the manufacturing process. This assumes, of course, that the host country will be content to import foreign goods and services indefinitely, a proposition which is clearly contrary to the goals the author describes for the Socialist countries, that is, the members of the Council for Mutual Economic Assistance (COMECON).[5]

In summary, the author sees MNE's as a threat to the economic sovereignty of the countries within which they operate, both developed and developing. Against the concerns of MNE's for maximizing profits, exploiting local markets, repatriating earnings, safeguarding investments, and control over management, is the interest of the host country in raising employment prospects (particularly in depressed areas), utilizing domestic sources of supply, maximizing tax revenue, increasing exports, providing technological advancement, and minimizing foreign control. While in the short term, foreign investment will bring needed capital; in the long term,[6] profits will exceed initial investment and there will be a re-

4. The author received his doctorate in 1971 from the Netherlands School of Economics, and now teaches at the Institute of Economic Science, University of Warsaw.

5. The author uses the abbreviation CMEA instead of COMECON.

6. Approximately five years.

sulting negative flow of capital.[7] The author concludes as to the mutual relations between MNE's and the states within which they operate, "one cannot foresee much."[8]

While disclaiming any universal model, the author describes the SCE as a large-scale, diversified entity characterized by a sharing of skills, lack of competitiveness, and high efficiency. "In the framework of the planned economy, the state as the owner of the productive capacities of the country is in the position to use its investment funds in a way which enables their optimal utilisation and allocation, whereby the economies of scale are realized."[9]

Western prices, according to the author, rely less on the cost of manufacture than the principle of supply and demand (an intrinsic or social value greater than the sum of its parts). By comparison, the main objective of the SCE should be production at reduced costs on as large a scale as possible, with price predicated on the lowest cost of production within COMECON countries.

It is, of course, difficult to describe SCE's, as they are stated to be a relatively recent phenomenon[10] and still in the formative stage.[11] The author would like to see COMECON-wide ownership of SCE's, providing common Socialist goals while recognizing employment, revenue, and other interests peculiar to the host country. In 1976, the Comprehensive Program for the Development of Socialist Economic Integration and the Uniform Principles of Creation and Functioning of the International Economic Organizations were worked out. In the words of the author, these were "rather vague and flexible."[12]

The author also poses the question whether or not foreign investment is prompted by the initiative of the host country or that of the MNE.[13] In the case of the Eastern European countries, the recurrent theme is a need for hard currency—money with which to buy Western goods and technology. Hence the stress is on compensatory trade, counter-purchases, buy-back arrangements, and even barter transactions. In any agreement to transfer technology to the East, the level of reciprocal purchases will determine the available limits of royalties and sales into socialist countries.

7. This conclusion seems to ignore the benefit of an ongoing operation in terms of employment, reduction of imports, capital growth, etc.

8. In fact, the respective goals of each may not be as antagonistic as they appear at first glance.

9. L. ZURAWICKI, *supra* note 1, at 99.

10. Within the last six years.

11. As of 1978, there were no more than a dozen SCE's.

12. L. ZURAWICKI, *supra* note 1, at 115. Actually, the Comprehensive Program was formalized in 1971. The best analysis of these documents in the overall Socialist context is R. BYSTRICKY, LE DROIT DE L'INTEGRATION ECONOMIQUE SOCIALIST (1979). (*Ed. note:* Professor Bystricky's book will be the subject of a review in an upcoming issue of the *Denver Journal of International Law and Policy*).

13. Generally, a country's efforts to encourage foreign investment are inversely proportionate to full employment and a favorable balance of payments.

These purchases often take the form of component sales to the Western licensor—in the words of the author, the Eastern producer becomes a "peripheral supplier of marginal components for the final product."[14] This, the author claims, is inequitable to the licensee since it is presumed that the end product is more profitable than the individual component. On a dollar invested basis, this premise might be challenged, particularly when one views the relative profits made by the suppliers of small vendor items to the auto industry in the United States. To better neutralize the balance of payments, the author suggests that a list of components be prepared and ranked by value, with the Eastern partner getting its fair share of the higher value components.

"Ideological antagonisms" stand in the way of extensive joint ventures and capital cooperation between East and West. Capital investment normally carries the expectation of ownership participation—a concept incompatible with state-owned enterprises. MNE's are generally unattracted by passive investments and will not normally favor minority participation in the control of the venture, even with a more positive division of profits. The limited duration of joint venture participation in COMECON countries is an additional feature which discourages participation by Western MNE's, and in Yugoslavia repatriation of profits is limited to a percentage of foreign exchange earned by the venture. Essentially, central economic planning, which is a prerequisite of socialist economies, forecloses any large-scale equity participation by Western enterprises.[15] More realistic is the possibility raised by the author of an East-West joint venture, limited to research and development, whereby technological exchange benefits both parties without the stress of foreign intrusion.

The discussion ultimately points to the dilemma faced by developing countries in attracting capital and technology and acquiring foreign-made goods, while at the same time maintaining consistency with national eco-

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14. L. ZURAWICKI, *supra* note 1, at 146.

15. While it is probably unfair to review economic projections with the benefit of hindsight, it is interesting to note that the author refers to certain advantages of capital investment in Socialist countries, including "labourers, who as a rule do not go on strike," *id.* at 155, and "the fact that the socialist countries have a good payment record, especially with respect to large contracts," *id.* at 163. The former requires little comment in light of the threat of Soviet intervention in Poland occasioned by chronic strikes over a number of months. With respect to the record of payment, the *Wall Street Journal* has reported: "Together with Poland's staggering foreign debt and near bankruptcy, the shortages make economic conditions here among the worst faced by any industrial nation in recent history." Wall St. J., June 18, 1981, at 1, col. 1. Summarizing the status on both points, a recent newsbrief reported:

> Moscow stepped up pressure on Poland, as Soviet Marshal Viktor Kulikov said the Eastern bloc's military unity is needed 'to protect Socialist gains.' Poland's debt problems, meanwhile, are due to be addressed by Western creditors in Paris. U.S. bankers favor freezing repayment until year-end if Poland discloses financial data.

Id., June 22, 1981, at 1, col. 3.

nomic goals. Fundamental differences in underlying philosophies (planned economy versus private enterprise) accentuate stresses inherent in uneven rates of economic growth. Still, accommodation of competing interests is more likely if motivations are clearly understood. In addition, economic planning can be facilitated by introducing a level of predictability to the market place. Unfortunately, such an analysis is only as good as the underlying premises, and not even pages of formulae can reduce market behavior to a mathematical science. In balance, the exercise is probably worthwhile, but ultimately the author concedes: "It is by no means easy to plan in advance the volume of sales in Western markets as much depends upon business cycles, the strategy and particular steps taken by rivals, as well as on other more or less random factors."[16]

16. L. ZURAWIKI, *supra* note 1, at 166.