

Title: MULTINATIONAL CORPORATIONS: Global Peace Agents?

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Author: Kyung-il Ghymn*
University of Nevada

*Dr. Ghymn is Professor of Marketing and International Business, College of Business,
MailStop 028, University of Nevada, Reno, NV 89557, U.S.A. phone(775)784-6993-
ext.307, fax(775)784-1769, e-mail:keg@unr.edu.

ABSTRACT: Although people throughout the world are involved and affected by multinational enterprises through production and consumption activities, when it comes to the question of international peace, people tend to give less attention to the international trade and investment as international peace agent. This paper examines MNCs and argues that they may contribute better to the global peace than any other peace approaches including military machines.

INTRODUCTION

Although people throughout the world are increasingly involved in and affected by international processes through international business and consumption activities of every day life, when it comes to the question of international peace and solutions to this, people tend to give less attention to the international trade and investment as international peace agent. Instead, they still tend to think that military power, weapons, and the international political power are the most important factors. No one will deny that these are very important variables determining war and peace. These were important factors in the global peace equation but history clearly tell us that they don't seem to work well for global peace. Instead, these military weapon systems were building up fear for a nuclear holocaust. The world has changed significantly since World War II. The world has changed from the era of colonial, imperialistic era to an era of new international economic order. Today one cannot avoid the impact of international trade and investment. Communications and transportation developments are making the world closely related and interdependent. Calvin Klein, a multinational corporation, helps to bring Egypt, Israel and Jordan together and helps to make them interdependent in business: cotton from Egypt is cut in Israel, assembled in Jordan then shipped to America (Dina Shilo, 2000).

Nearly 200 years ago, Immanuel Kant stated that one of the conditions for eternal peace is international trade(underline is the author's) because the spirit of commerce needs peace as a frame-work of action (Kant, 1988). International business is a peaceful form of international relations. Europe created EU, an international trade block. The ultimate stated goal of the Maastricht Treaty is a political union (Kotabe, 1999). However, a political union is still distant, due to strong nationalism in many EU countries (Borchardt, 1996). There had been attempts to

impose European unity by force, notably by Napoleon and by Hitler. Our history clearly teaches us that the military method for unity never worked. Is it a coincidence then that Western Europe, once a hot bed for military conflicts, never had any military confrontation for the first time in its history since the OEEC (Organization for European Economic Cooperation) signed in 1948? Former U.S. Secretary of State, Dr. Henry Kissinger, stated that "no issue is more important to the future vision of international order than the ways in which the world will manage the outputs and distribution of goods and services". [Perlmutter, 1968] The full implication of this statement is that international business

issues have become a critical foreign policy challenge. Former U.S. Commerce Secretary, C. William Verity, emphasized that "People don't realize that economic strength is more important than military strength in the world we are about to enter."(Verity, 1988)

It is quite clear that international trade and investment activities since World War II have changed the international economic order and MNCs have become an important actor charting for the future course of global affairs. Unfortunately, however, little attention has been given to MNCs with respect to their contribution to international peace.

The purpose of this article is to: (1) review the past and present issues discussed in the quest for peace; (2) discuss the effects of the multinational activities of business corporations on the international system, especially focus on the MNCs in terms of their roles and functions with respect to their contribution to international peace

APPROACHES TO PEACE

Throughout history there have been many attempts to bring and keep international peace on earth. These can be classified into eight main themes: (1) Use and Control of Military Power; (2)

Third Party Roles; (3) Centralized Political Power;(4) Self-determination for Peoples, Groups and Individuals;(5) Grassroots Movements;(6) Non-violence;(7) Governance of the Commons; and (8) Economic Well-being. Each approach has had its role in quest for international peace. Each has its strength and weakness.

Due to space limitations for this paper, all of the above listed peace approaches will not be explained in this paper. What is to follow will be an extensive argument for Economic Well-being and MNCs as a global peace agent.

Economic-Well-Being as a Goal for Peace

Growing attention to economic well-being and equity in the quest for peace in this century can be measured readily by comparing the slight attention given to these issues in the League Covenant, the extensive treatment given by the UN Charter, and the growth in UN institutions concerned with economic issues since 1945. In many respects this is presently the most dynamic arena for peace thinking and dialogue.

Two questions arise from the above statement: (1) why the economic issue has become the most dynamic area for peace thinking and dialogue recently, and (2) who or what organizations/institutions can transfer the needed resources so that the gap between the haves and have-nots can be reduced.

We now live in an age of international communication and information which makes our globe smaller and smaller. We live in an age of escalating global economy which makes every nation interdependent and all "ordinary people" deeply involved in international affairs, hence involved in determining international peace. The lives of ordinary people are lived in a sea of multinational economic transactions, as consumers, as workers and as investors. People

experience linkages with human beings in distant places in the ordinary and repetitive activities of daily life--at the gasoline station, at the department stores, and at the plants of export oriented special foreign economic zones.

In addition new technologies for travel and communication, exemplified by the jet engine and communications satellites, have intensified and increased the speed of the linking process. Satellite communication has revolutionized news reporting by radio, TV, and the print media. World leaders, battle actions in the Persian Gulf, street demonstrations in Seoul and Manila, and armed conflict in Yugoslavia and Central America are brought directly into the living rooms of urban and rural citizens of the United States. Satellite transactions may move our morning bank deposits half way around the world by lunch time. Decisions on the purchase of machinery in Beijing or Tokyo can determine whether a company in California or Hong Kong is hiring or firing. Consumer tastes in San Francisco and Miami can likewise affect the fate of workers in Taiwan and Singapore. (Bandyopahuaya, 1982, 58) People throughout the world face an important challenge, and its roots are economic. This new global economy is different from the economy of yester year in fundamental ways, not only in that the economy is becoming international at an accelerating rate and that there is more trade with Asia than with Europe. The difference is not only quantitative, but qualitative and systemic. Operations have become global. Perhaps a third of U.S. trade moves between members of the same firm; the foreign and domestic divisions of the same organization ship to one another. Today's MNCs manufacture components overseas in order to be competitive, and manufacturing requirements involve the firm's engineers in technology transfer across cultures. Marketing has become global. Banking and advertising have become global. Finance has become global. Financial flows across borders have become enormous, and

financing of new operations may be obtained in several countries.

It is also characteristic of the global economy that firms based in different countries seek working relationships with one another in order to enhance capabilities for global competition, and so almost daily one reads about transnational joint ventures, marketing agreements, mergers, acquisitions, licensing arrangements, supply agreements and production arrangements. It follows that corporate management in general, beyond the traditional export division, faces new complexity: negotiation of transnational agreements, coordination of marketing, production and other activities among subsidiaries of and partners in other countries, and international personnel management. Management's strategic thinking necessarily is evolving toward an integrated view of domestic and foreign operations and markets. Management must watch the competition in a global context and deal with foreign governments. We are operating in a new business system and the global economy, of which we are a part, is based on new ways of managing, thinking, and living. (Kreugler, 1983, 65)

The world economy is now ruled by manufacturing and trading corporations. Corporations move into new areas before anything else; nations follow, trying to measure progress with antiquated statistical instruments. National borders are now irrelevant to most companies and consumers, regardless of whether they are in Japan, North America, or Europe. Current frictions and clashes at the national level may seem serious, but they are insignificant at the microeconomic level where customers buy and companies sell. (Ohmae, 1987).

As indicated earlier, roots of today's international challenge are economic. In the past, governments and their foreign relations and trade policies played the most important role in shaping and determining the global economic development. However, as the global economic

system increases its complexity, the governmental agencies and their economic policies have been increasingly unable to deal with problems associated with global economic issues. Especially when they face problems of the transfer of resources (capital, technologies and managerial skills and know-how) which are considered to be the most effective ways for reducing the economic gap between the haves and have-nots, national governments have proven totally ineffective. Even international governmental organizations such as the U.N. or the World Bank could not function effectively for the necessary transfer of resources.

The question remains, then, as to who and what organizations are available that can deal with the global economic problems more effectively than the governmental organizations can. People, even those who were against it, now begin to recognize that MNCs can play an important role in world affairs - world peace.

What is to follow are some detailed arguments and discussions as to whether or not MNCs can be a global peace agent.

The Multinational Corporation: Tension Creator or Peace Agent?

History tells us that the very concept and structure of national boundary systems has generated conflict that has led to violence. This national boundary system seems to be based on the idea that the activities of citizens of the nation should be contained within the boundaries. Because of this, the limits of the nation-state system are now sewn together by the same variety of boundary-crossing activity that takes place across the territorial sub-units within nation-states. This makes it more difficult for citizens of different countries to recognize common interests and collaborate in common activities. It makes it more possible for citizens (and their governments) to hate, and to engage in violent response to acts of people (and their governments) in other

countries.

The UN can be seen as one effort to diminish the restraints that the nation-state system places on interaction across national boundaries. While a variety of specialists get involved in UN activity throughout the UN system, participants are primarily government officials. Limited success of the UN can be partially attributed to the fact that its participants are primarily national officials who have a vested interest in maintaining the nation-state system in its present form. Also, does not the UN function under impossible conditions? Could it not be more successful if there were a more integrated global community, that is, more highly developed nongovernmental organizations cutting across national boundaries? Might it not be possible for really strong international nongovernmental organizations to challenge the tendency of nation-states to prevent fundamental change in the international system?

Frustrated by the apparent inability of governments to facilitate needed reform in the organization of the nation-state system, some observers have reacted exceedingly positively to the success of business corporations in moving across nation-state boundaries. In this activity they have seen great potential for peace. To wit:

"The multinational corporation...is fundamentally an instrument for peace." (Jacoby, 1970, 579).

"It (MNC) can thus provide the adhesive which can do more to bind nations together than any other development yet found by man in his pursuit of peace." (Blough, 1971, 54)

"It is possible that the international firm can be part of an economic community on the world level, including East and West, North and South, a community in which the bombing of suppliers, customers and employees of the same firms will not be found desirable or permitted. Since the super-giant firms will be represented in all countries, war will not be possible." (the underline is the author's) (Perlmutter, 1968).

The potential impact of MNCs on peace appears to be exceedingly positive. Then, who are these MNCs and how can they contribute to international peace? This question requires a searching examination of their characteristics and activities. Are multinational corporations economic exploitative agents or are they economic development agents? This question has been the focus of much debate in the past and it has puzzled the international management field for years. The multinational enterprise system advocates has long embraced the view that MNCs are the economic development agent that provided the developing countries with needed capital, technology, and know-how essential for the modernization of their countries, thus, reducing the economic gap between the rich and the poor. But this positive view was violently challenged by many government officials, political leaders, journalists, and academic scholars who expressed serious misgivings and antagonistic views about the economic, political, and cultural impact of the MNCs on the host nations.

The impact of the MNCs on the global economy has been so significant that they have created a unique "need-fear" and "love-hate" relationship between MNCs and nation-states. The host nations need for and love to have benefits that MNCs can offer for faster industrialization but hate and fear of their interference, national tensions and other social costs that accompany the benefits. The growth of MNCs in terms of their numbers, size and success since the 50s has been phenomenal by any standard. Though there is no single statistic that shows the total shares of the world output produced by multinational corporations, it is clear the MNCs are the largest and most powerful businesses on earth today. One study shows that the 200 MNCs' revenues were equal to roughly one-third of the OECD member nations' total output (the 24-nation OECD members include the 19 largest non-communist European countries plus the U.S., Japan, Canada, Australia,

and New Zealand). (Kothari, 1983)

Thus, the worldwide attitudes toward MNCs range from MNCs being thought of as the prime molders of world economic achievements and fundamental instrument of global peace to charges that MNCs are exploitative, immoral and fundamentally malevolent institutions. (The Wall Street Journal, 1992). Unfortunately, the majority of the public seems to share with the latter negative points of view.

This section is to take a closer look at the MNCs' characteristics and present some arguments as to whether MNCs are the international tension creator or the global peace keeping agent.

1. Specific Arguments Over MNCs

Argument as to whether MNCs are malevolent or munificent organizations will remain a subject of importance and controversy for years to come. This section examines some of the arguments focusing on four specific key issues: transfer of capital, transfer of technology, competition and the global peace. (Ghymn, 1980)

Transfers of Capital

Critics argue that the cost of MNC capital is much higher than the cost of money borrowed on free capital markets; that MNCs often invest relatively little of their own capital but attract capital in the host country. The resulting profits are exorbitantly high and only a small portion is reinvested in the host nation. This view is contradicted by the argument that MNCs are the most promising instruments for the transfer of capital to the developing countries of the world and that this role will be crucial in overcoming the income gap which endangers world peace.

Furthermore, the proponents of MNCs argue that unlike portfolio investment which is a

pure transfer of capital, the MNCs' direct foreign investment involves the transfer of capital funds that are converted into real capital (plant, equipment, and permanent working capital) contributing much more to the production system than portfolio investment.

Transfers of Technology

MNCs are criticized because successful research and development (R&D) produces new technology which is then closely held within the corporate structure. It is alleged that training of the local people for R&D posts is widely neglected. These assertions are countered with the argument that MNCs are the most effective available instrument for diffusion of technology and for training people for ultra-modern managerial skills. Also, according to the MNC advocates, their unique contribution is the internationalization of the entire innovation process. This means that the MNC undertakes the whole process of technical research, development, production start-up and marketing start-up on a global scale. This process is a real advantage to local producers.

The Issue of Competition

The critics of MNCs argue that their size and scale of operations are "unfair competition" because they tend to preempt fast-growing, technically advanced industries where profits are highest, ignoring the host governments' emphasis and priorities for balanced industrial development in all sectors. But proponents of MNCs reply that they enhance competition by breaking the grip of local companies on markets within the host countries. As a result, MNCs provide better products at a lower cost to the consumer and provide new export industries for the host country. It is also argued that MNCs can help to promote balanced industrial development.

The Issue of International Economic Stability

On the issue of national interdependence and world stability, it is alleged that MNCs are

invasions of sovereignty and frustrate host governments and the public politically and psychologically. Instead of uniting countries through economic interdependence, the MNCs aggravate tensions and stimulate nationalism, creating conflict and distrust among nations. Proponents, on the other hand, say that MNCs are development agents and catalysts which are altering value systems, social attitudes and living patterns in ways which will ultimately interlock the economic and industrial systems, reduce communication barriers among nations and establish the basis for a stable world order which is in the interests of all peoples.

DISCUSSIONS AND CONCLUSION

The reasons for the importance of international trade have been recognized by economists since the days of Adam Smith. One of the most significant economic trends since the World War II has been the emergence and phenomenal growth of MNCs. The MNC is a unique international organization with many complex dimensions. Although it involves international business between countries, it intersects with international politics, international law, and international economics. It is also shaped by cultural, social, ideological, and technological forces. As a result of this complexity, this new organization violates all the existing theories in economics and business.

Attitudes toward MNCs are quite mixed and it is doubtful that there will ever be agreement as to their true characteristics and the role they perform in economic and political life. What are the real benefits and costs associated with MNCs? There is much difference of opinion as to whether the "socioeconomic" truth lies closer to the benefit side or to the cost side. If history teaches us anything, however, it should be noted that the military system which we developed to preserve world peace has failed to keep it. On the contrary, it has been the major source of

conflicts among nations and now it threatens the existence of the entire human race on earth with many nuclear weapon build-ups and the space missile systems. The foreign-aid programs for economic development that many developed countries created for the less developed countries to improve the international economic order and to preserve world peace have been a failure in most cases. The United Nations' functions continue to be ineffective (examples: bitter conflicts in the Middle East, Central America and Northern Ireland).

The business conduct of MNCs in the past has not been impeccable. History clearly shows some instances of political meddling on the part of American and other Nation's MNCs in the internal affairs of countries in which they operated.

Although it is a relatively new phenomenon, the MNC is a phenomenon with profound consequences for the kind of world in which we will be living in the years ahead. There is ample evidence and every indication that these new business giants will have a significant impact upon the world economy. Some observers claim that even the fate of a nation can be determined by the actions of a few MNC executives.

Recognizing the importance of the multinational business in world politics, even the Beijing government acknowledges that improving trade relations with Taiwan would help bring the two sides closer together politically: "As hectic trade has been a major factor in helping melt the political chill... in the past few years, it is expected to continue to do the same in the future." (Straight Times, 1992) The US\$5 billion trade between the Taiwanese government and the People's Republic of China in 1991 and the US\$ 1.5 billion Taiwanese direct investment in Fujian province alone can be considered the most positive political development made since their separation in 1947. Taiwan's High Court ruling last month recognizing the renminbi of PRC as a

legitimate monetary currency can be considered another landmark case that can help expanding economic ties, a step closer to political peace for both countries.(The Wall Street Journal, 1992).

A US\$ 5 billion trade in 1991 between PRC and South Korea, politically enemy nations since the Korean War in 1950, demonstrates another example that international trade benefits outweigh the political/military measures. Early this year PRC and South Korea signed a trade agreement giving most-favored-nation status to each other's exports. Since 1988 South Korean companies had invested US\$ 122 million in 130 projects in PRC. Needless to say, these monetary benefits through trade and investment outweigh fear of offending its military ally of North Korea. Recognizing the future gains through trade, last year PRC granted South Korea permission to open an "unofficial" embassy in Beijing.(The Wall Street Journal, 1992)

Now, given all the problems, opportunities, and implication regarding MNCs and their characteristics and ways of doing global business one question still remains unanswered: Are MNCs the best mechanism that can help preserve and maintain world peace? They would certainly perform better than governments, universities, labor unions, and even the United Nations in bridging the economic and technology gap between the rich and the poor; in transferring the needed managerial know-how and capital to the needy; in making the world smaller through its global marketing practices; and in making each country economically interdependent. Multinational corporations will continue to exist, expand and be a dominant force in various fields of the global affairs.

To be effective for MNCs to bridge the economic gap, the communication gap between MNCs and the leaders of host countries (both developed and developing) must be reduced. As they are sensitive and quickly respond to the performance demands of boards of directors,

shareholders, and the security markets, they should be equally sensitive and quickly respond to the fact that MNCs' foreign direct investments can constitute a great human need in LDCs and present a significant contribution to peace and stability of the world in the future.

MNCs may not be the best "ideal" road to international peace. However, we have witnessed during the past two decades that significant changes have occurred in the international system: international trade and investments have become a major challenge in most nations' foreign policy; economic power seems to be mightier than the military system; all the past and present forms of governmental organizations have been increasingly unable to deal with many pressing economic problems; and most LDCs take the economic development and industrialization as the most important national priority. It is unthinkable that Japan would attack America again militarily, as it did in 1941, because the Japanese economic strength depends on the U.S. market. Germany would never attack its neighboring countries, as it did during World War II, because almost one half of the entire Germany's trade volume (48%) go to the other EU member markets. Once Winston Churchill stated that democracy was a terrible system but it is the best alternative we've got. Is there any better alternative road to peace in Europe available today than the MNC?

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