Texto 9

Multinationals and Global Capitalism. From the Nineteenth to the Twenty-First Century

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2. Multinationals and globalization

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2.2.1 The growth of multinationals

The webs of the first global economy were built by firms and entrepreneurs. As shown earlier, this was not new, but there was a new scale and durability to the business structures which began to be created in the nineteenth century. For millennia, when merchants and bankers despatched representatives across borders they employed family members, as the concept of 'professional managers' did not exist, while the problem of distance ruled out close monitoring of representatives abroad. The only option was to use people who could be 'trusted' not to act opportunistically. This greatly constrained the size of any organization. Typically such family members would in time become assimilated in their new countries, or else return home. The exceptional case of business enterprises which sustained cross-border businesses over long periods, such as the chartered trading companies, were typically supported by governments.

From the 1820s business enterprises began to make cross-border investments which were sustained without the benefit of monopoly rights. These were sometimes in a mine in a neighboring European country. They were often in colonies. During the 1830s British merchants and bankers began forming specialist 'overseas' banks to introduce banking into the Australian, Canadian, and West Indies colonies. Later entrepreneurs began to erect factories across borders. These were not large investments, but their real significance was that they were sustained. They continued to be managed from their home economies. Firms such as the German-owned electrical company Siemens and US owned Singer Sewing Machines, which established their first overseas plants in the 1850s and 1860s respectively, were among the first manufacturing multinationals in history**.**

From the 1880s the numbers and scale of multinationals grew rapidly. They drove the rapid increase in international trade as they discovered and exploited natural resources and food supplies over much of the world. By 1914 multinational manufacturing was also undertaken in a wide range of manufactured products, including chemicals, pharmaceuticals, electricals, machinery, motor cars, tires, branded food products, and cigarettes. While entrepreneurs had made one-off cross-border transfers of knowledge in the past, the more sustained investments meant that there was a continuous flow of knowledge and other resources across borders within the boundaries of firms. Figure 2.1 portrays in an illustrative fashion the role of business enterprises in cross-border integration.

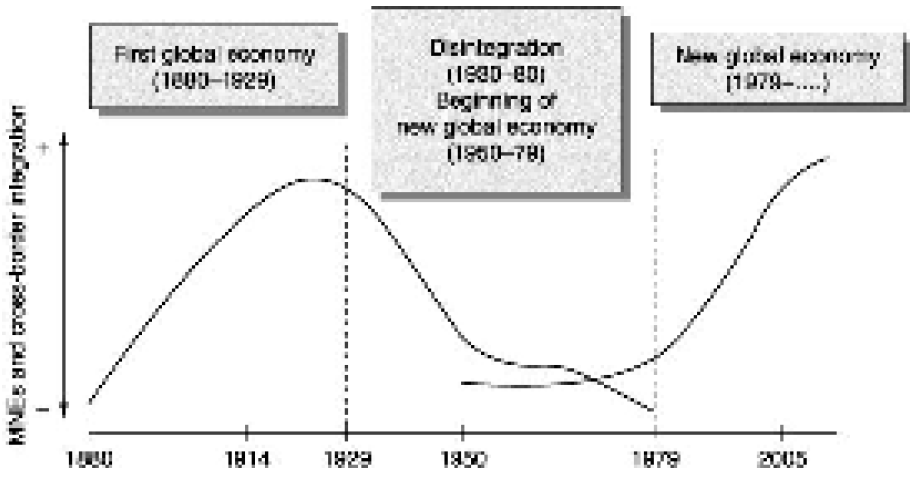


Fig. 2.1 Waves of globalization.

Source: the author.

It is not easy to quantify the amount of FDI between the late nineteenth century and 1914. There was an enormous amount of foreign investment in the world, but there remains great uncertainty about its composition. The total world stock of foreign investment by 1914 has usually been estimated at between $40 billion and $45 billion, but even the size of the capital exports from the world's largest creditor nation—the United Kingdom—remains uncertain (Platt 1980; 1986; Feinstein 1990). It was long believed that almost 90 percent of total capital flows were portfolio. J.H. Dunning's historical estimates of world FDI stock—which, although made over two decades ago, remain the only estimates of the global figure—suggest that by 1913 around one-third of total world foreign investment, or some $14 582 million, took the form of FDI (Dunning 1983; 1988a; 1992). Table 2.1 compares this sum to world output, suggesting that multinationals might have already reached an importance in the global economy, which was only achieved again in the 1990s.

In 1914 Western Europe as a region, and Britain as a single country, were the dominant sources of world FDI. The United States accounted for most of the remainder. FDI was widely dispersed around the globe. Latin America and Asia were especially important as host economies, even though the largest individual host countries seem to have been the United States and Canada. Possibly one-half of world FDI was invested in natural resources, and a further one third in services, especially financing, insuring, transporting commodities, and foodstuffs. Multinational manufacturing was overwhelmingly located in the industrial economies of Western Europe and North America.

A central challenge in understanding the scope of multinational business at this time is posed by the diversity of organizational forms employed by entrepreneurs as they sought to take advantage of the opportunities of the rapidly globalizing world economy. Firms such as Siemens and Singer began by undertaking value-added activities in their home market, and then expanded abroad. The managerial and technological competences developed at home helped these firms sustain their investments abroad. This was the kind of firm and growth trajectory which economic theorists in the 1960s considered as the standard model of multinationals.

In fact, firms employed diverse organizational forms when they crossed borders. Many ventures were formed to undertake business activities exclusively or mainly abroad without prior domestic business. These have been termed free-standing companies **(see Box 2.3).**

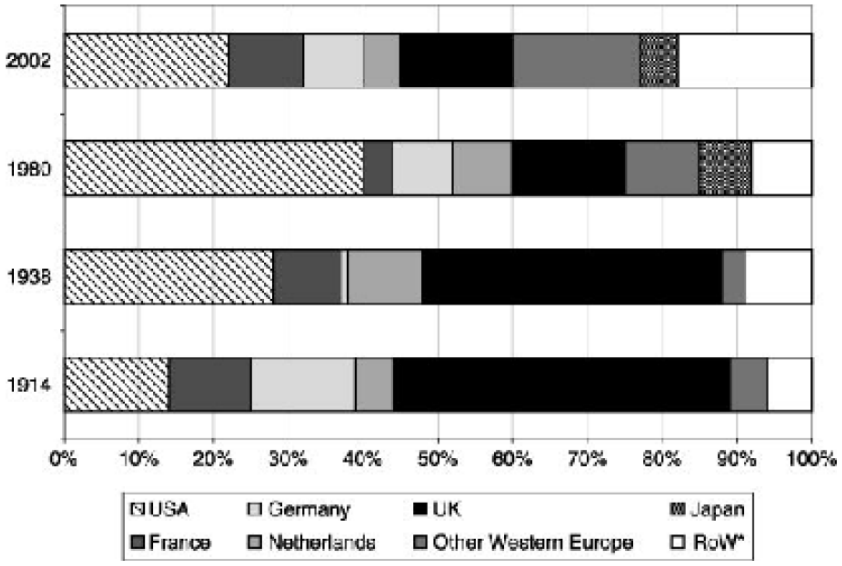
The 'clustering' of free-standing companies was characteristic of the network forms of organization widely employed in the first global economy. British trading companies and merchant houses in Asia, Latin America, and Africa formed business groups linking nominally independent free-standing firms using both equity and nonequity modes. Many other European companies collaborated when they crossed borders, either in business groups or other types of network or alliance.

Table 2.1 World FDI as a percentage of world output, 1913–97 (%).

1913	1960>	1980	1990	1997
9.0	4.4	4.8	8.5	11.8

Source: World Investment Reports 1994, 1997, 1999.

Box 2.2 The geographical distribution of world FDI, 1914–2002



Box Fig. 2.1 Stock of outward FDI by home economy 1914–2002 (% total world outward FDI).

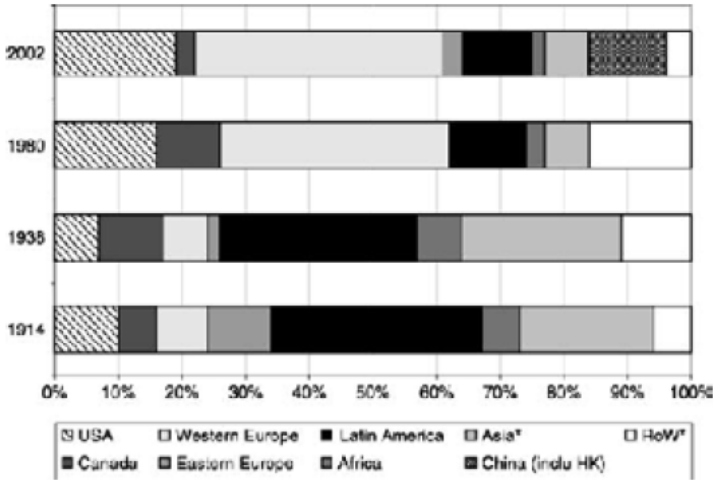
* Rest of the world includes Japan for 1914 and 1938

(Source: Dunning 1983, 1988a, 1992; Stopford and Dunning 1983; United Nations 1993; UNCTAD 2003.)

There are further complexities in interpreting the significance of FDI in the world economy because of the large percentage of investment located in colonial empires. In so far that the essence of multinational enterprise is crossing political borders, it is not evident that colonial investment is a form of FDI. The counter-argument is that metropolitan enterprises investing in colonial territories still faced different cultural, labor, and geographical conditions than in their home countries. Doing business in Saigon or Jakarta remained different from Paris or Amsterdam, whatever the borders of empire. Nor were colonial administrations

necessarily supportive of expatriate firms. In the British Empire, there was often a distant relationship between individual administrators and expatriate business.

Parallel definitional issues arise when firms invested literally just over national borders. This was a common occurrence before 1914. Swiss chemical firms established factories in Germany within walking distance of the Swiss border. Early US investments in Canada were sometimes just over the border (Schröter 1993b; Wilkins 1988a). These investments might be more accurately described as 'multiregional' than 'multinational'. If both colonial and multiregional investments were excluded from current estimates of FDI in 1914, its overall importance in the world economy would decline sharply.



Box Fig. 2.2 Stock of inward FDI by host economy and region 1914–2002 (% total world inward FDI).

* Rest of the world, includes China and Hong Kong for 1914, 1938, and 1980.

(Source: Dunning 1983, 1988a, 1992; Stopford and Dunning 1983; United Nations 1993, 2003.)

Box 2.3 Free-standing companies and the first global economy

During the nineteenth century thousands of British, and hundreds of Dutch and other European, companies were formed exclusively to operate internationally with no prior domestic business. The period between 1870 and 1914 saw particularly rapid levels of firm creation. They were international venture capitalists, exploiting the numerous opportunities of the booming world economy and of expanding imperial frontiers. Typically, free-standing companies were legally incorporated in their home economy. They would have a small head office where a part-time board of directors met, supported by a handful of other clerical staff.

They usually specialized on a single commodity, product or service, often in a single overseas country. They were predominantly located in the natural resource and service sectors, and occasionally in processing. Most free-standing companies invested in developing, including colonial, countries, although many British free-standing firms were formed to conduct business in the United States. Three-fourths of the 200 Dutch free-standing companies active in 1914 operated in the Dutch colony of Indonesia, then known as the Dutch East Indies.

This type of firm was long considered as a vehicle for portfolio capital flows. Yet insofar as management control was exercised from head offices at home, they are more appropriately regarded as a form of multinational. The reclassification of free-standing firms engaged in FDI prompted the large upward revision of the amount of FDI in the world economy before 1914. In fact, there remain many uncertainties about the management structures of these firms. In some cases, most managerial decision-making was located in host economies. Some firms were engaged in a form of property development. Once the short lived need for their specialized project management skills dried up, management control shifted to locals, and the investment ceased to be FDI.

Nominally independent free-standing companies were often part of wider business networks. There were 'clusters' linking different firms around original promoters, financial intermediaries, solicitors, accountants, mining engineers, merchant banks, trading companies, and influential individuals. Common to all clusters was the provision of services. The small head offices of the free-standing companies typically outsourced many managerial functions. Insofar as firms formed parts of networks, the description 'free standing' might be misleading.

(Source: Wilkins 1988a; Corley 1994; Sluyterman 1994; Casson 1994a; Hennart 1994a; Jones 1998a; Wilkins and Schroter 1998.)

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2.3 Globalization challenged and reversed, 1914–50

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2.3.1 Multinationals during the Great Depression and world wars

Multinationals continued to operate, and even to expand, as the first global economy disintegrated. However, there were some major shifts in response to the stocks of the era. The United States emerged from World War I as the most dynamic direct investor in the world economy, though its stock remained well below European levels. US FDI almost doubled in the 1920s. In contrast, German FDI all but disappeared following its sequestration during and after World War I by the victorious Allies. The sequestration of foreign capital in Russia in 1917 not only eliminated a large share of total French and Belgian FDI, but dampened new multinational investment from those countries. In 1938 the estimated total world stock of FDI was around $26 350 million. The United States, Britain and the Netherlands together may have accounted for over three-quarters of the total amount **(see Box 2.2).**

The Great Depression and its aftermath finally halted the overall growth of world FDI. Exchange controls were a major disincentive to engage in new FDI, as dividends and profits could not be repatriated, though they could give rise to 'enforced investment' as funds that could not be repatriated were ploughed back into business. This helps to explain the almost 50 percent increase in the level of US FDI in Germany between 1929 and 1940 (Wilkins 1974a). A picture of stagnation emerges for the only economy for which FDI estimates exist, the United States. The stock of outward US FDI fell, though inward FDI into the US between 1935 and 1940 may have risen from $1.6 billion to $2.9 billion (Lipsey 1988). The ratio of FDI to

total US output tumbled from 4.7 percent to 1.4 percent between 1914 and 1929, but may have climbed back to 3.2 percent by 1939 (Wilkins 2004).

Even during the 1930s there were exceptions to stagnation. There remained opportunities for multinational growth in markets protected by high tariff barriers. Falling world food and raw material prices caused cheaper imports and higher real incomes in some countries, at least for the proportion of the working population which remained in employment, and this created growing markets for new consumer products like vacuum cleaners and refrigerators, and processed food products. Although international trade slumped in the 1930s, some multinational trading companies found rich opportunities. Japan's large trading companies grew alongside Japanese exports, opening up new markets in Latin America, the Middle East and the Soviet Union, and creating 'global sales networks' (Kawabe 1987).

World War II and the immediate aftermath saw—not surprisingly—little new multinational investment. Both sides in the conflict sequestrated the assets of the other. The entire stock of German and Japanese FDI was lost. The spread of Communism to eastern Europe in the late 1940s, and to China in 1949, resulted in further falls in the stock of FDI as those countries progressively nationalized privately owned firms, foreign and domestic. The United States was the only country to significantly increase its actual FDI during the war, yet this was dwarfed by the dramatic growth of the domestic economy. The ratio of inward FDI to total US output was around 1.3 percent by 1945 (Wilkins 2004).

The numbers of multinationals which were large hierarchical corporations continued to grow in the interwar years. Their operations became more complex, involving more countries and more products. New US industries became involved in multinational expansion on a substantial scale for the first time, notably automobiles, food, and consumer chemicals (Wilkins 1974a). There were further developments in corporate organization. In the United States, a number of large corporations including Du Pont, General Motors (GM), and Standard Oil of New Jersey responded to the managerial problems caused by scale and diversification by moving from centralized or wholly decentralized organizations towards semi-autonomous product divisions. This multidivisional structure (M-form), which was spread rapidly through US industry, combined coordinated control, implemented through financial reporting and capital allocation, with sufficient decentralization to make further product and geographical growth possible. The M form had the capacity to manage scale and complexity by separating strategy from operations (Chandler 1962). Both GM and Standard Oil of New Jersey were major US multinational investors in the interwar years.

There was no clear-cut correlation between the spread of the M-form and the further growth of multinationals. Most US corporations had still to adopt the M-form in the interwar years. Ford, which had extensive multinational operations, remained personally managed by its owner, Henry Ford. Some scholars have now questioned whether, even at GM, the M-form worked in practice as it was described in theory (Freeland 2001). Nor can it now be seen as a uniquely American phenomenon. It is evident that German companies, including the steel firm Thyssen, had developed a similar organizational form before World War I (Fear 2004).

The biodiversity seen in the organization of multinationals persisted. It does seem that the creation of new free-standing firms fell greatly. Many European free-standing firms active in the United States disappeared or passed into local ownership during and after World War I. In Latin America, a swathe of British free-standing firms were acquired by US companies. Yet in some sectors (such as banking and utilities) and some regions (such as Southeast Asia and Africa) the free-standing type structure survived.

Some networks of loosely coordinated firms evolved tighter organizational structures over time (Greenhill 1995). Even a new generation of free-standing firms appeared on the New York stock market as US investors floated companies that owned sugar plantations and mines in Latin America (Wilkins 1993a; Hennart 1994b).

The macroeconomic conditions of the interwar years, and the heightened risks of investment, also encouraged entrepreneurs to pursue collaborative strategies as an alternative to FDI. Numerous international cartel agreements were formed in both manufacturing and natural resources, as firms sought to maintain prices in conditions of overcapacity. In many developed countries merger waves had led to the creation of larger firms. Collusive behavior on an international scale was made much easier by the existence of oligopolistic and cartelized domestic markets, as it was far easier to organize industries when there were only a handful of major corporations than in a situation of hundreds or thousands of competing firms.

After 1930, multinationals were less drivers of global integration, than part of the process of disintegration. International cartels restricted flows of international trade, although there is some evidence that they continued to provide a channel for flows of knowledge. Although extensive multinational operations remained in place, they functioned in more 'national' ways. Trade barriers and exchange controls led to the increased autonomy of national affiliates, which increasingly became responsible for most of the value-added chain of their products. Nationalism encouraged firms to strengthen their 'local' identities in their host economies. In Europe, US companies such as IBM, Ford, and GM responded to European competition by developing new products for major markets which were distinct from those produced for their domestic American market.

2.4 Restoring a global economy, 1950–80

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2.4.1 The resumption of multinational growth

The expansion of the world economy prompted a recovery in the growth rate of world FDI. The system of international cartels was dismantled. By 1960 the world stock of FDI had reached $60 billion. By 1980 it was over $500 billion. These were the decades when the term 'multinational' was invented, and when economic theorists turned their attention to explaining their existence.

Between 1945 and the mid-1960s the United States may have accounted for 85 percent of all new FDI flows. By 1980 it held 40 percent of total stock. In the twenty years after the end of World War II both German and Japanese FDI remained low, but growth during the 1970s gave the two countries an overall share of world FDI of 8 percent and 7 percent respectively. The German share finally surpassed that of the Netherlands by that date. By 1980 almost two thirds of world FDI was located in Western Europe and North America. Latin America and Asia had declined very sharply in their relative importance as host economies. By 1980 there was no multinational investment in China, and almost none in India. Even Japan in that year accounted for less than 1 percent of world inward FDI stock.

The relative shift of world FDI to Western Europe and North America reflected the many barriers to foreign multinationals elsewhere. In agriculture and mining, and later in petroleum, foreign firms lost the

ownership of production facilities in many countries, even if they remained very powerful in the transportation, processing, and marketing of commodities. By 1980 manufacturing FDI was larger than the natural resource and service sectors combined. In services, while transport and utility investments were no longer important, from the 1960s multinational banks, trading companies, and international commodity dealers began rapid international expansion.

As suggested in Figure 2.1, there were two different trends evident in this era. On the one hand, much of the multinational investment dating from the first global economy in resources and utilities was swept away. The high levels of integration seen in many commodities was broken by nationalizations and other forms of government intervention. Formerly large host economies including Russia, China, and even India—which retained a quasi-capitalist economy—were isolated from the world economy. On the other hand, new types of firms expanded abroad. These included management consultants which transferred knowledge across borders, and fast food restaurants and hotels, which transferred lifestyles. They were particularly important in diffusing US management and marketing techniques to other economies, although they were typically adapted in their new hosts. In Europe, firms also began to respond to European integration by building European-wide organizations, and integrating previously autonomous national subsidiaries**.**

By 1979 the overall size of multinational investment was still smaller in relation to the world economy as a whole than in 1914. This reflected the barriers to foreign ownership erected in many countries, and in many sectors, such as utilities, and the disappearance of the hugely capital-intensive investments in mining and petroleum. During the first global economy, much of the growth had been driven by the exchange of manufactured goods made in the developed world for the resources found elsewhere. The emergent new global economy was driven by trade, investment, and knowledge flows between Europe, North America, and Japan.

2.5 The new global economy: borderless, regional

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2.5.1 Multinationals and the new global economy

Multinationals became the leading driver of the integration of the global economy. During the 1980s the average annual growth rate for FDI outflows reached 14 percent.

Between 1996 and 2000 it reached 40 percent per annum. This was far faster than both the annual growth of world exports (4.2 percent) and of world output (1.2 percent). The huge sums of multinational investment were the result of cross-border mergers and acquisitions which had become the principal vehicle for FDI. These were driven by the new opportunities for globalization, Internet-related technological change, and the very high levels of stock valuation seen in global equity markets. The total stock of world FDI reached $6.8 trillion by 2001, before stagnating over the following two years as world share prices fell.

In 2004 the United States remained, by a considerable margin, the largest home economy. Yet the once-dominant trio of the United States, Britain, and the Netherlands only accounted for two-fifths of world FDI stock. German, French, and other European firms also held large shares of FDI. The surge in Japanese

FDI, which had begun in the 1970s, increased rapidly following a sharp appreciation of the yen in 1985. Japan held almost 13 percent of world FDI in the early 1990s, but a decade later this share had fallen to 5 percent. There was also a relatively small amount of FDI from emerging markets, including South Korea.

The stock of multinational investment remained largely located in North America and Western Europe, but there was a striking rise of flows into China. For much of the 1990s China was the second largest recipient of FDI worldwide after the United States. This sum did not include Hong Kong, which reverted from being a British colony to part of the People's Republic of China in 1997, albeit administratively distinct for fifty years. From 1979 until 2000 China absorbed, on a cumulative basis, over $346 billion of FDI (Huang 2003). Although inward FDI only represented around 5 percent of Chinese GDP during the second half of the 1990s, and amounted to less than one-seventh of total investment, foreign multinationals accounted for one half of gross exports. In India, the amount of FDI was so small even after 1991 that it had little impact on overall growth. However, Indian diaspora may have been significantly directing outsourcing opportunities to their country of origin. The fast development of the IT industry in Bangalore has been attributed to business linkages with Indians working in Silicon Valley (Carana Corporation 2004).

While services represented around a quarter of the total world stock at the beginning of the 1970s, they accounted for at least one half by 2000. Although there are a large and diverse group of service sector activities, 85 percent of service FDI was in trade-related activities and financial services. The same percentage of the stock was located in developed countries, where they took advantage of the growing demand for consumer services from rising real incomes, the growing technological, information and knowledge component of many activities, and the new opportunities offered by deregulation and liberalization.

By 2004 if the level of world FDI was related to the world output, the globalization of international business was approaching that obtained before World War I. Corporations had a much greater flexibility to locate different parts of their value-added activities in different parts of the world. Production of goods and services became internationalized at a deeper level than in the past. A striking manifestation of these trends was a rapid growth of intrafirm trade in manufacturing, especially in high technology industries such as automobiles and machinery which had experienced the greatest rationalization on a world scale. In 1970 intrafirm trade was estimated to account for around 20 percent of world trade. By 2000 the share was over 40 percent. Multinationals were the drivers of world trade growth.

As the integration of international production by multinationals proceeded, organizational forms evolved. Although in many industries giant corporations were created by mergers, boundaries of firms also became more porous, as they had been in the first global economy. During the 1970s and 1980s many large US and European-owned M-form corporations suffered from growing managerial diseconomies caused by size and diversification. Large corporations, although spending large sums on R & D, experienced growing problems achieving successful innovation (Christensen 1997). The result was a general trend towards divestment of ‘non-core’ businesses, outsourcing of many value-added activities once performed within corporate borders, and the formation of many alliances with other firms, which acted as suppliers and customers, or as partners in innovation. The new global economy was complex. Large corporations were powerhouses of innovation spending and market power. Yet the economy could also be seen as a ‘worldwide web of interfirm connections’ (Mathews 2002).

It remained less evident that the global economy had spawned a multitude of ‘global firms’. Trade flows remained more regional than global. Only a handful of large multinationals really operated on a ‘global scale’. In most instances, firms continued to generate a high proportion of their revenues from their home regions. A study of the 500 largest companies in the world in 2000 identified 380 for whom the geographical distribution of sales existed. Defining ‘global’ as a firm having 20 percent of its sales in each three parts of the Triad, but less than 50 percent in any one region, Rugman and D'Cruz (2000) could only find nine ‘global firms’. These were mostly in the computer, telecom, and high-tech sectors, such as IBM, Sony, and Intel, but included Coca-Cola. In the new global economy, one study concluded, the multinational was a ‘national corporation with international operations’ (Hu 1992). As global competition intensified, geography and location remained central to corporate strategy.