1 Multinationals, states and the international economy

International business and the historian

Through tracing the rise of the global company, we can observe a major influence on the modern era: few would question the importance of multinational enterprise to the world economy, but multinationals have shaped, too, the politics and societies of individual countries, and the relations and power balance between nations. The bonds between the economic and political are too often downplayed in the accounts of international history, more concerned with states, diplomatic alliances, and wars. Yet European industrialization and rising living standards in the nineteenth century incited the search for raw materials and commodities, trade and investment overseas, and imperial expansion. Cold War divisions and the economic, technological, and military hegemony of the USA shaped the workings of the post-war international economy. With the liberalization of markets and cross-border investment from the late twentieth century onwards, it was multinationals that hastened and transformed the economic interdependence of countries.

While the governments of investing nations supported their firms abroad, host nation governments strove through their policies to gain from these investments, and, in many cases, to protect encroachments on their sovereignty; for multinationals, governments were as much part of the business challenge as trends in the global marketplace. In addition to changing the nature of individual states, the rise of the global company reminds us that national economies did not develop in isolation: cross-border interaction and the transfer of capital, technology, business practices and much else have determined the fortunes of countries and their industries. As a result, multinationals have been both a force for change and dynamism, and a magnet for criticism and concern.

Economists, during the 1960s, fashioned the idea of 'multinational enterprise', without realizing how long it had existed as a form of business. Others soon grasped that the giant international corporation, which had become such a prominent feature of the post-war world, had deep origins (Wilkins, 1970; Stopford and Wells, 1972; Stopford, 1974; Franko, 1976). Each revelation remained, nonetheless, a preamble to the main analysis. Why might we move historical study centre stage instead? One suggestion borrows heavily from leading ideas in strategic management and the theory of international business, which view the firm or the multinational as a unique bundle of organizational systems, managerial knowledge, technologies, products and skills. These 'capabilities' – held internally within the firm – are portrayed as the sources of a multinational's success against competitors, and the reason why it can overcome the liability of being in a 'foreign' market (Dunning and Lundan, 2008). The choices made within the firm, whether done consciously or unconsciously, when evolving its unique traits, occur over time, and have long-lasting effects on its performance and on the prospects of competitors. The development of internal capabilities, it follows, is a suitable candidate for the techniques of the historian (Jones and Khanna, 2006).

Another argument appears more closely linked to factors external to the firm, and more rooted in the academic traditions of (international) political economy (Stopford and Strange, 1991): multinationals have had far-reaching effects on nation states and on the structures of global commerce, just as they have been influenced in turn, and analysts can only study their complicated interactions over a lengthy period of time. Finally, history, by its very nature, has a role in questioning claims of the 'new'. How do we judge the many confident assertions that globalization began in the 1990s; that it would inevitably bring an end to the nation state; or that the world had reached an unprecedented turning point? The past can and does offer salutary, alternative perspectives on current events.

On the other hand, we run the danger of a contrary mistake, tracking continuities in international business, and failing to spot changes of long-term significance. We have to ask, too, whether history should be a testing ground for contemporary questions. If so, how far back should we reach into the past before exaggerating connections with the present, and misunderstanding or disregarding the circumstances of times gone? It is not immediately obvious how dating the origins of a firm's competencies helps an analysis of its contemporary strengths and weaknesses. In 2008, the largest multinational was General Electric. Its history is closely tied to the history of US technology, not surprising perhaps for an enterprise that grew from the laboratory of iconic innovator Thomas Edison (Whitney, 1985).

But how might this fact change any detailed explanation of the $4bn and more currently spent by GE on research across five worldwide locations? *Fortune Global 500*, in 2011, classified the modern GE as a 'diversified financial', since it had become a complex business group making multiple products; the *Forbes Global 2000* opted for 'conglomerate'. General Electric no longer concentrated on electrical engineering, and earnt nearly half of its profits from loans and services. The difficulties facing historians of business and multinationals in particular are difficulties for all historians. We might trace German nationalism to the times of Martin Luther, or link the Geneva Conventions to the chivalric codes of medieval knights, but the relevant events and circumstances in the nineteenth and twentieth centuries seem more consequential.

International business theorists have tended to focus on the strategies and internal mechanisms of firms (such as building technological competence, for example) rather than broader issues (such as the international economy's structures and trends, or the context of the nation states within which multinationals operate). Business historians, wanting to be seen as analytically rigorous, and seeking the wider acceptance of management scholars, have imitated their frameworks and concepts. The quality of the research that followed is proof of how much has been learnt, but it is fair to ask which issues have been downplayed.

One assessment of the theory of international business, in 2009, wondered if fifty years of analysis had brought much insight into 'business' but revealed nothing that was specifically 'international'. Companies may have been looking for sales and profits abroad, but their decisions and methods were not very different in essence from those of companies looking for sales and profits in domestic markets only. In both cases, the principle is the same: they need to build their internal 'competencies' over time, or decide how to contract out these activities to suppliers, sales firms, specialists, or strategic partners. The solution, it was argued, is to give more attention to what can only be international, such as differing stages of economic development between nations, or varying macro-economic, institutional and cultural environments (Pitelis, 2009).

Box 1.1 Understanding the past, interpreting the present?

What are the uses, and, it would follow, the abuses of history? The subject's origins are usually linked with the German historian Leopold von Ranke: from the 1820s, he established history as an academic discipline – separate from philosophy or literature – and revolutionized historical writing by insisting on original sources. He believed in interrogating rather than simply accepting documentary evidence. For our purposes, it is worth noting that he showed a strong preference for writing national histories – despite awareness of a broader European context – and historians after him undoubtedly followed his bias or even a tendency towards highly nationalist histories.

Critics unfairly labelled Ranke an inveterate empiricist obsessed only with facts, but he was wary of grand schemes and universal interpretations, while believing, contradictorily, that nations somehow incorporated moral and divine forces. He himself sought to judge the past and the people from the past in their own terms: they should not, in other words, be used to validate the present, or to create the very common danger of romanticizing existing political institutions (R. J. Evans, 2005; Iggers and Powell, 1973; Stern, 1973).

Can the past, with its unique set of circumstances, be left to speak for itself, or do historians inevitably impose their own priorities? The philosopher Benedetto Croce summed up the doubts of generations after Ranke: 'All history is contemporary history' (Croce, 1941). As well as being famous for his pro-Soviet views, in which Stalin's crimes became the necessary price of progress, E. H. Carr urged that history and the social sciences should move closer together, with contemporary issues, hypotheses, and generalizations being explored or tested through historical evidence (Carr, 1962). History as a subject broadened during the post-war years: economic, social, and cultural issues became as mainstream as the political, diplomatic and military (R. J. Evans, 2005). As a subject, it had to prove its theoretical credentials, or remain self-consciously inferior to more exact 'sciences' such as economics. Purely narrative history lost its good reputation. Historical writing – aimed at the specialist – claimed greater rigour, but arguably never found a large audience or wide influence.

One of the first media dons, A. J. P. Taylor, continued to say that the only point of history is history, and that the subject is worth studying simply because humans find the past interesting. He claimed that, as he matured as an historian, the more he believed that his main task was to answer the child's question 'What happened next?' He was a professional contrarian, but there is reason to think that here was his genuine belief (Taylor, 1984). He also seemed unconvinced by man's ability to learn from the past, when he summed up the career of Napoleon III, Emperor of the French: *'Like most of those who study history, he learned from the mistakes of the past how to make new ones'* (Taylor, 1963). Napoleon III is best remembered for the events of 1870, when he lost both the Franco-Prussian War and his throne, and enabled Bismarck to create a united Germany at the centre of Europe. Yet, interestingly, before his enforced retirement, he had imitated Britain's policies of free trade and overseas expansion, and associated them with the forces of modernization and national success.

Postmodernists (proportionately, literary critics and philosophers rather than historians) attacked any notion that you could substantiate any historical fact, let alone draw any meaningful lessons. They saw historians as imposing their own assumptions or ideologies over historical documents, and argued that 'truths' were merely relative or culturally determined. In this world, evidence could not show how one belief might be more soundly held than any other, and so (to take one rightly emotive and significant case) the Holocaust both happened and did not happen.

Some asserted (quite incorrectly) that historians were generally too trusting of documentary sources; historians replied that their methods were always founded on the questioning of evidence, the careful verification and cross-checking of facts, and, when proposing interpretations and generalizations, a preference for caution (R. J. Evans, 2005). Eric Hobsbawm pondered why the innocent in a murder trial would prefer judgement according to the evidence, while the postmodernist's uncertainties and relativism would appeal to the obviously guilty in desperate need of a defence (Hobsbawm, 1998).

Even during the high point of national histories, some historians were pointing out how any stretch of designated land would be affected by world events. The transnational perspective does not reject the importance of national histories, but wants to add the powerful interactions that take place at many different levels between countries (Miller, 2012). Transnational history highlights how national borders constantly change, and it focuses, therefore, on those factors or forces at work between territories or nation states, with multinationals not receiving due credit for their role in world history (Saunier, 2013). There is a view that economic history is not a separate subset of general history, but should be used to form a particular perspective on history generally. We can follow that approach by arguing that the history of the multinational should not be an historical subset, but serve as an insightful and important means of viewing world or global history.

Transnational history and global forces

This book fits securely into the category of world or transnational history, privileging cross-border forces and events over national accounts, and scrutinizing multinational enterprise as a potent vehicle of global change. Increasing attention has been paid to the links between polities, though there is a debate about whether 'international', 'transnational', or 'global' history or even 'connected' or 'shared' histories make better terms. The study of multinationals inevitably challenges the long-established historical tradition of studying the nation state as the main vehicle for understanding the political, economic and cultural life of humans. This book is, additionally, a study in international political economy, recognizing the importance of firms, nations, and their interactions.

We begin with the quickening pace of economic internationalization in the nineteenth century, and the emergence of an international economic system based on market transactions, complex transcontinental commodity chains, large-scale capital flows, technology transfer, and convergence in business practices. The analysis considers, too, the role of the multinational in these developments – how it brought about the escalating transfer of assets, goods, and ideas across borders, affected the fortunes of national states, and influenced the calculations of international politics. Global investment and trade spurred economic growth and consumption; altered the landscape through the building of infrastructure and cities, the digging of mines, and the founding of landed estates; and transformed the work and lives of those drawn into networks of cross-border finance, commerce and production.

The process was uneven, both between regions and between industries, and not smooth over time, but multinationals were at the centre of a cumulative revolution – occurring concurrently at global, regional, national, and local levels – and they were transporters and models of economic modernity. They did not make the world 'flat' in the sense of creating one single global marketplace, since the interaction between countries and territories showed disparities in economic power and outcomes. While fostering or imposing cross-border interdependence, the international economy could cause or heighten divisions between and within polities, raise awareness of vital differences and inequalities, and generate antagonism and conflict.

This book explores the workings of the 'first global economy' in the decades before 1914, and its 'retreat' during the worldwide conflict, instability, and nationalism that would be experienced in a second phase by the following generation. It compares the 'third global economy' of the 1950s and 1960s with its first incarnation, and asks if trends, starting from the 1980s, can fairly be seen as the global economy's new, 'fourth' phase. The approach lends itself to the question – 'Why have things changed?' – that is often at the forefront of the historian's mind.

Multinationals from developed economies – Europe, North America, and subsequently Japan – historically dominated foreign direct investment and cross-border commerce, and broadly reflected the mix of technological, military, diplomatic and economic advantage between nations and regions. Indeed, it has been argued, with good reason, that 'the West' has determined the main course of world history for five hundred years. One widely read contribution by Niall Ferguson reformulates well-established ideas about 'modernity' – the combining of the rule of law, market competition, property rights, science, technology, and high living standards – and reasserts the argument that they were essentially Western, and something 'the Rest' had to imitate. By ignoring what had made it successful, he adds, Western civilization is ensuring its own decline (Ferguson, 2011). An alternative view of world history, by C. A. Bayly, interprets modernity as something historically led by the West, but holds that the interactions of the West and the Rest were, if not equal, not in one direction either (Bayly, 2004).

Nations modernize by emulation of global best practice, but, through adaptations and learning, and because their contexts differ and circumstances change, they can never modernize in exactly the same way. Although the West initiated industrialization, and historically determined globalization trends, the desire for material well-being is not of course something uniquely Western, or something only achievable with Western institutions. While spread by the advanced economies, and the forces of internationalization, markets and competition proved dynamic because they could adapt to a variety of national institutions. Even if the West was first, and historically influential, other nations would inevitably close the gap, and generate their own managerial best practices for adoption or (more likely) adaptation by others. Therefore, Western companies, during the 1980s, feeling the threat of competition, attempted to imitate Japan's leading business systems. They did so often with mixed success, and they never incorporated the Japanese model wholesale.

Max Weber, in 1904, famously credited North European and North American achievements to the Protestant work ethic (Weber, 1903–4); critics stated that, even if Protestantism and capitalism emerged together, capitalism would still have occurred without Protestantism ever existing (Tawney, 1928). Less known is Weber's conclusion that it was Confucianism that explained China's failure to industrialize. Clearly, times have changed. More contemporary analysis has linked the rise of East Asia to Confucian values, including the work ethic, duty, long-termism, education, and self-improvement. Or was it economic development, competitive markets and international trade and investment that brought about modernization, entrepreneurship, and the disciplines of factory routines, by replacing or reinterpreting deep cultural traits? It is modern, best practice or effective business systems that create growth and change values, not Western or any set of values that creates growth. That is, industrialization and the international economy began with the West, but would have occurred even if the West had never existed.

Arguments about the rise and fall of the West recall, in many ways, the writings of Arnold Toynbee: he believed that great men and elites created civilizations, with each example having a definable character or 'soul', and that hardship and struggle favoured the growth of a leading civilization over effete societies (Toynbee, 1934–61). Geyl did not fall back on the traditions of gentlemanly refutation when he accused Toynbee of being a prophet, not an historian, for reducing the richness and complexity of history to 'presumptuous construction' (R. J. Evans, 2005; Geyl, 1955). We are too often guilty of generalizations that overlook political, social and economic differences within countries, while perhaps overemphasizing the depths of the differences between them (Smith, McSweeney and Fitzgerald, 2008). The arrival of Japanese multinationals, from the 1980s onwards, and the rise of emerging market multinationals, beginning a decade later, posed interesting questions about the causes of the dominance previously held by Western companies.

Meanings: globalization and multinationals

Critics are concerned by globalization's threat to local cultures and identities, and by the powerlessness of communities against large corporations in pursuit of profits. Environmentalists question an international economy founded on economic growth, and anti-capitalism campaigners chant against powerful vested interests that are perceived as both exploitative and rootless. Globalization is associated with continuous economic and social change, constant uncertainty, and cycles of crisis and rapid contagion. Others rationalize that international trade and multinational enterprise have expanded because, ultimately, the benefits have outweighed the costs. For its advocates, the international economy enables the efficient allocation of productive resources without the limits of borders, creating mutual gains for firms and nations. Its dynamism spurs the innovation in technology, business organization, management systems and markets on which the generation of wealth and the material welfare of people depend.

Globalization envisages producers adopting best practice, while consumers enjoy lower prices and improved goods and services. Increased measures of multinational investment, trade and output are automatically associated with progress, but you can also gauge globalization's impact by its ability or failure to improve education and health, most obviously in developing countries (Stiglitz, 2002). From 1979, China ended its experiment in autarky and central planning. By shifting hundreds of millions out of poverty, it achieved one of the most remarkable transformations in human history (Sachs, 2005). Yet, for decades, the inland rural provinces remained largely untouched, and factory workers continue to endure the long hours and harsh conditions that have enabled the phenomenal growth in exports. China's experience, as an industrializing country, revealed the dual nature of economic growth, and the internationalization process that has, historically, accompanied it. The effects of globalization are uneven: within countries, and also between them. While many Asian nations became major beneficiaries of change, nations in Africa have generally not achieved equal levels of economic and social transformation.

The term *globalization* is potentially misleading, used as a catch-all to explain any trend. It is used, too, in a way that bestows a sense of inevitability. Here, once again, history can offer a corrective. The workings of the international economy are far from straightforward or easily summarized. The international economy involves nation states, multinational enterprises, financial and commodity markets, and supranational institutions such as the World Trade Organization (WTO) or the International Monetary Fund (IMF). Issues of politics, regulations, diplomatic and trade relations, levels of economic development, communications, technology, and business organization have relevance. All of these factors impact on each other, and none can be considered in isolation. The effects of globalization can be studied at the level of cross-border transactions, nations, regions, and firms.

Some nation states have been more deeply involved in the international economy than others. They have differed in their policies, and in their ability to manage trends and to maximize benefits from international trade and investment. Some localities within nations, often home to specific industries or clusters, have been more developed and globalized than others. Some firms have been more orientated towards exports or foreign investments, or more engaged in joint ventures or strategic alliances with foreign businesses. In theory, globalization has necessitated the eventual imitation of leading firms and nations (called convergence), but simultaneously the drive for continuous innovation and differentiation has stopped firms and nations all becoming the same (leading to divergence). Outlining the progress of economic internationalization or globalization is consequently tricky; disentangling the costs and benefits is even more so.

How, then, can we describe globalization, or use the term legitimately? The term first appeared in the 1960s – the same decade in which ‘multinational enterprise’ became more accepted – but twenty years later it evolved into a common label for many important worldwide trends. A rough count of books and academic papers with the buzzwords ‘global’ or ‘globalization’ in their title shows a prominent rise from the mid 1980s but ‘take-off’ after 1992 (Dicken, 2003).

It can, firstly, be considered at the level of societies. Given developments in media and communications, some have foreseen the