CHAPTER ELEVEN

The State and the Multinationals

THE IMPORTANCE of the multinational corporation (MNC) is a key feature of globalization of the world economy.[1] However, opinions differ greatly over the significance for domestic and international economic affairs of the globalization of corporate activities. Some commentators believe that the multinational corporation has broken free from its home economy and has become a powerful independent force determining both international economic and political affairs. Others reject this position and believe that the multinational corporation remains a creature of its home economy.

Although there are many more technical definitions of a multinational firm, this chapter refers simply to a firm of a particular nationality with partially or wholly owned subsidiaries within at least one other national economy. Tens of thousands of MNCs with numerous subsidiaries conduct business around the world. Such firms expand overseas primarily through foreign direct investment (FDI), whose purpose is to achieve partial or complete control over marketing, production, or other facilities in another economy; such investments may be in services, manufacturing, or commodities. FDI can entail either the purchase of existing businesses or the building of new facilities (called "greenfield" investment). Overseas expansion is frequently accompanied by mergers, takeovers, or intercorporate alliances with firms of other nationalities.[2] Whereas the purpose of portfolio investment is to obtain a financial return on the investment, FDI, as well as alliances, mergers, and similar ventures, are usually part of an international corporate strategy to establish a permanent position in another economy.

In one sense, multinational firms have existed for a very long time. The Dutch East India Company, the Massachusetts Bay Company, and other companies of merchant-adventurers were forerunners of today's MNCs like IBM, Sony, and Daimler-Chrysler. These earlier

[1] Sylvia Ostry, *A New Regime for Foreign Direct Investment* (Washington, D.C.: Group of Thirty, 1997), 5.

[2] Benjamin Gomes-Casseres, *The Alliance Revolution: The New Shape of Business Rivalry* (Cambridge: Harvard University Press, 1996).

transnational firms, however, were far more powerful than contemporary MNCs are; they commanded armies and fleets, had their own foreign policies, and controlled vast expanses of territory: the sub-Asian continent (India, Pakistan, and Bangladesh), the East Indies (Indonesia), and South Africa. Modern MNCs are much more modest. Another major difference between those early transnational firms and today's is that the former were principally interested in agricultural products and extractive industries in particular regions of the world, whereas major firms in the early twenty-first century are principally involved in manufacturing, retailing, and services, tend to operate on a regional or worldwide basis, and usually pursue an international corporate strategy. It is particularly significant that, whereas the earlier firms frequently exploited and subjugated native peoples, today's MNCs, with some exceptions, are important sources of the capital and technology required for economic development of the less developed countries.

Explanations of FDI and the MNC

Despite the importance of multinational corporations in the functioning of the international economy, neoclassical economists have remarkably little to say about them. The indifference of mainstream economists to the MNC means that the student of the MNC must turn for an understanding of these firms to the writings of radical economists, business economists, and political economists—groups of scholars with a long-term interest in multinational firms and their impact.

Mainstream Economists and the MNC

The indifference of most neoclassical economists to the multinational corporation despite its importance in the global economy can be explained in various ways.[3] Their strong belief in the primacy of markets causes those economists to discount the importance of institutions; they believe that a firm's behavior is determined almost entirely by market signals and that, therefore, the nationality of the firm and whether it is operating domestically or internationally are of slight importance. Furthermore, the Mundell equivalency, accepted by most economists, holds that international transfer of the factors of produc-

[3] A survey of the economics literature on the subject can be found in Gene M. Grossman, ed., *Imperfect Competition and International Trade* (Cambridge: MIT Press, 1994), 9–10.

tion (capital, technology, etc.) through foreign direct investment (FDI) produces consequences for the real-world equivalent to those from the international flow of goods. In other words, from the economist's perspective, trade and investment are perfect substitutes for one another. Economics also teaches that trade precedes investment rather than vice versa. The location of economic activities around the world and patterns of trade are determined by the theory of location and the principle of comparative advantage; production will be located where it is most efficient. An economist might argue that FDI is an indirect route to economic specialization based on the distribution of productive factors.

Also, methodological obstacles have prevented economists from formulating a generally accepted theory to explain FDI and the MNC. MNCs are primarily oligopolistic firms and function in imperfect markets, and as has already been noted, there is no satisfactory formal model to account for all types of oligopolistic behavior. Lack of a general model encourages ambiguous and contradictory attitudes among economists toward multinational firms. A major reason why neoclassical economics has been unable to provide a general theoretical explanation for the MNC and FDI is that the MNC is largely a product of market imperfections and unique corporate experiences. For example, IBM manufactures in a number of countries so as to maintain good political relations with host governments rather than for strictly economic reasons. Some market imperfections are created by national governments through such policies as trade protection and industrial policy; in fact, a government sometimes creates market imperfections to encourage foreign MNCs to invest in their economies. A notable example is the erection of trade barriers and the provision of "tax breaks" to encourage FDI. Without such imperfections, a firm might find it more efficient to export its products from its home economy or to license its technology to a foreign firm.

The ambiguous attitude of professional economists toward the MNC is illustrated in Paul Krugman's writings. On the one hand, he has taken the conventional position that MNCs are not a significant factor in the international economy; indeed, he and coauthor Maurice Obstfeld have written in their textbook on international economics (1994) that the effects of FDI on global distribution of economic activities and other economic outcomes cannot be distinguished from those of international trade.[4] The principal effect of FDI, they argue,

[4] Paul R. Krugman and Maurice Obstfeld, *International Economics: Theory and Practice*, 3d ed. (New York: HarperCollins, 1994), 162.

is on the domestic distribution of income; that is, between capital and labor. On the other hand, Krugman argues in many of his other writings that the oligopolistic nature of international business is significant for trade patterns and the location of economic activities. For example, because oligopolistic firms engage in strategic behavior, an MNC's decision whether to export a product from its home market or to invest abroad in order to service a foreign market will strongly affect the location of economic activities and the rates of economic growth around the world. In this fashion, the activities of MNCs can have a profound impact on international economic affairs. MNCs are not merely substitutes for trade; indeed they attempt to extend their power and control over foreign economies. It is clear that multinational firms desire not only to earn immediate profits, but also to change and influence the rules or regimes governing trade and international competition in order to improve their long-term position.

Fortunately, the traditional indifference of economists to MNCS has begun to change in response to a number of theoretical developments, as well as the undeniable importance of the MNC in the world economy. Theoretical advances in industrial organization and strategic trade theory, as well as growing appreciation of the significance of technological innovation for comparative advantage, have made economists more aware of MNC importance. For example, the MNC has been acknowledged as a means to reduce transaction costs; it may be cheaper to organize vertically through FDI than by market transactions. The research of Harvard economist Richard Caves has stressed the importance of "appropriability"; that is, of a firm's ability to maintain control of a valuable asset such as a trademark or technology.[5] Nevertheless, even though mainstream economists have become somewhat more sympathetic to the idea that MNCs do behave differently from non-MNCs and have a particularly important role in the world economy, a cursory examination of current economics syllabi and textbooks confirms that economists do not yet consider the MNC an important aspect of the world economy.

Business Economists and the MNC

Business economists have long had a strong interest in the wellsprings of corporate behavior, an interest strongly influenced by the pioneering scholarship of Alfred Chandler.[6] Beginning in the 1960s, interest

[5] Richard E. Caves, *Multinational Enterprises and Economic Analysis* (Cambridge: Harvard University Press, 1982).

[6] Alfred D. Chandler, *Strategy and Structure: Chapters in the History of the Industrial Enterprise* (Cambridge: MIT Press, 1970).

in corporations has been extended to firms operating internationally. Research on the MNC has been pursued almost exclusively by American and British business economists with a liberal commitment toward the overwhelming benefits of FDI to both home and host countries. Scholarship on this matter has been overwhelmingly empirical and has seldom been informed by economic or other types of social theory. Because this writer cannot do justice to the huge volume of writings that have paralleled and interpreted the several stages in the development of the MNC, I shall focus on just a few important contributions to illustrate the essence and evolution of this scholarship.

An early important contribution was the influential pioneering work of Raymond Vernon. Vernon's product cycle model of FDI stressed the importance of economic and technological leadership and provided an important insight into the overseas expansion of American MNCs in the 1960s. Another valuable contribution to the subject was made by British business economist John Dunning, who, along with others, attempted to provide a general explanation of the MNC; the result was the eclectic theory of FDI that accounted in large part for the second stage of the MNC's evolution. The most recent explanation is generally identified with Michael Porter's extensive and almost encyclopedic empirical research on the firm as a strategic player in the game of international economic competition.

Vernon's Product Cycle Theory. The crux of Vernon's product cycle theory, as set forth in *Sovereignty at Bay* (1971), was that every product follows a life cycle from innovation through maturity to decline to eventual obsolescence.[7] American firms, Vernon argued, had a comparative advantage in product innovation due to the huge size of the American market (the demand side) and to American superiority in research and development (the supply side). During the initial phase of the product cycle, firms export new products from their home industrial base, but in time a number of changes associated with the maturing of the product, such as standardization of production techniques, diffusion abroad of industrial know-how, and creation of significant foreign demand for the product, stimulate the entry of foreign imitators into the market. To deter foreign firms from entering the market and undercutting their monopoly position, the original firms establish production facilities in other economies. Thus, according to Vernon's product cycle theory, foreign direct investment

[7] Raymond Vernon, *Sovereignty at Bay* (New York: Basic Books 1971).

is principally a device used by firms to preempt foreign competition and to maintain their monopoly rents.

Vernon's theory, which assumed that there were large gaps in wealth and technology between the United States and other countries, helped to explain the overseas expansion of American firms in the 1960s. As such gaps disappeared in the 1970s, the relevance of his theory to the behavior of American firms declined. Furthermore, product cycle theory could not account for the subsequent expansion abroad of European and Japanese firms and the firms of many other nations. Other business economists' explanations of these new developments include such specific and general factors as the erection of trade barriers, the importance of market proximity, the decline in transportation costs, and the problem of currency fluctuation. The "eclectic" theory, primarily associated with John Dunning and the Reading school, was the most systematic effort to incorporate the many developments during this second stage in MNC evolution into a coherent general explanation of the MNC and FDI.[8]

Dunning's and the Reading School's Eclectic Theory. The eclectic theory of the MNC, developed by John Dunning and the Reading School (named after the University of Reading, England), provides important insights into the MNC, as it emphasizes technology as a factor in MNC development. Revolutionary advances in communications and transportation have made it technically possible for businesses to organize and manage services and production systems on a global basis. In effect, technological advances have greatly reduced the transaction and other costs of internationalizing. However, the eclectic theory is hardly a theory at all, at least not a theory that mainstream economists would acknowledge; rather it is a collection of ideas gathered from many sources and much research on the MNC. Dunning and his Reading colleagues believe these ideas provide a comprehensive understanding of the MNC. While Dunning's integration of various ideas and insights into the nature and behavior of the MNC is generally nontheoretical, it is nevertheless quite valuable. However, the usefulness of the eclectic theory is most relevant for understanding a particular stage in the evolution of the MNC; subsequent changes in the MNC have necessitated newer explanations for their behavior.

[8] The writings of John N. Dunning on the MNC are voluminous. One place to start is Dunning, *Explaining International Production* (London: Unwin Hyman, 1988). In addition to Dunning, other members of the Reading School include Peter J. Buckley and Mark C. Casson.

Work by Michael Porter and others builds on and incorporates the core of Dunning's eclectic explanation.

According to Dunning's eclectic theory, the unique nature and extraordinary economic success of the MNC are due to particular characteristics that give the MNC important advantages over purely domestic corporations. These advantages are ownership, location, and, most importantly, internalization, a concept that was also extensively developed by Richard Caves, one of few mainstream economists to seriously consider FDI and the MNC.[9] These oligopolistic firms usually possess some proprietary or firm-specific advantage that they want to exploit rather than lose to a rival firm; such an internal advantage may be a trademark or possession of a particular technology. Although some of the most important MNCs are not high-tech, it is not coincidental that many MNCs predominate in industries characterized by extensive and expensive research and development activities. Obviously, such firms are anxious to appropriate for themselves all the results of their R & D efforts.

As Caves has pointed out, FDI's advantages in ownership and internalization explain why firms are willing to assume its high costs and risks. Although in most cases it would be far more efficient to export from existing plants in the home economy than through production abroad, Caves argues that maintaining within their own control such monopolistic advantages as a trademark or know-how gives firms market power and the ability to extract rents. This internalization objective can best be achieved through FDI and the creation in other economies of subsidiaries that are owned by the parent firm. Oligopolistic firms attempt to keep firm-specific advantages within the secure confines of the firm and out of the hands of rival firms through the establishment of "greenfield" plants or the acquisition of wholly owned foreign subsidiaries over which they have exclusive control.

Many such firms also possess locational advantages, because MNCs have access to factors of production around the world and can, therefore, employ such country-specific advantages as access to low-cost skilled labor or to other special local resources. Considered in terms of the Heckscher-Ohlin model of international trade, these firms can exploit the comparative advantages possessed by other economies, and such flexibility can give them a considerable advantage over purely domestic firms. Moreover, even though the firm's home economy may be losing comparative advantage in its particular industrial sector, the MNC itself can maintain its presence in the in-

[9] Caves, *Multinational Enterprises and Economic Analysis*.

dustry through FDI in economies gaining comparative advantage within that industry.

Other factors have been important to the success of the MNC, including deregulation of markets and services around the world. Certainly, deregulation and integration of financial markets have facilitated foreign direct investment. The continuing shift in comparative advantage in many traditional and other industrial sectors to low-wage industrializing economies has also been a factor determining MNC strategy. And particularly among Japanese firms, a desire to leap over trade barriers and to reduce growing trade friction has also contributed to FDI expansion. Yet another relatively important consideration has been the corporate ideology spread by numerous business consultants and other prophets of the global corporation that firms must learn to "manage across borders" and become truly global if they are to survive in the new global economy.

Porter's Strategic Theory. Another noteworthy interpretation of the MNC has emerged from the research of Michael Porter at the Harvard School of Business. Porter's *Competitive Advantage of Nations* (1990) and his numerous other writings argue that the MNC has entered an era of strategic management.[10] Porter assumes that international business is characterized by a "value chain" of activities ranging from extraction to production to marketing. The individual firm must decide which and how many of these activities it wishes to pursue and in what locations around the globe. These decisions in turn depend on the overall competitive strategy of the firm. Following the lead of Alfred Chandler in his classic contributions to business studies,[11] Porter argues that the firm's strategy determines its structure and its location of economic activities throughout the world economy. In the development of his theory of strategic management, Porter follows the eclectic theory's definition of the inherent advantages possessed by MNCs. But the overwhelming advantage of the MNC over domestic firms, according to Porter, is that it provides access to a wide array of possible strategies through which it can "tap into the value chain." In contrast to a domestic firm, a multinational firm can carry out its activities at the most efficient location for each particular activity anywhere in the world. Because the firm pursues its strategy and integrates its activities across national borders, many analysts

[10] The references to Porter in this chapter are based on Michael E. Porter, *The Competitive Advantage of Nations* (New York: Free Press, 1990).

[11] Chandler, *Strategy and Structure.*

prefer to use the term "transnational" rather than "multinational" corporation.

The essence of strategic management is that the transnational firm has available to it more extensive options and techniques than do even the largest domestic firms. These mechanisms include not only FDI, but also strategic alliances, outsourcing component production and licensing technologies. These corporate activities create international complexes or networks of corporate relations with the parent MNC in its home economy. Through modern information technologies and monopoly of information resources, the multinational corporation can become dominant over both its domestic and international competitors. Needless to say, such a depiction of a firm's strategy, structure, and activities has evolved far beyond that portrayed in Vernon's product cycle model or even in Dunning's eclectic theory. These transnational firms have become worldwide institutions coordinating economic activities that are located in many countries.

Political Economists and the MNC

There are two distinctive bodies of writings by political economists on the multinational corporation: the radical (or quasi-Marxist) critique and the state-centric interpretation.

Marxist or Radical Theories. Stephen Hymer's innovative ideas present the most systematic critique of the MNC.[12] Hymer, trained as a technical economist at the mecca of neoclassical economics (the Department of Economics at the Massachusetts Institute of Technology), has contributed to the subject both as an economist and a radical political thinker, but I am primarily concerned with his latter work. At the time of Hymer's writings in the early 1960s, economists scarcely distinguished between foreign direct investment and foreign portfolio investment. Instead, they assumed that FDI, like portfolio investment, could be explained primarily by differences in interest rates between home and host economies. Hymer showed, on the other hand, that FDI was fundamentally different from portfolio investment and could be explained as part of a firm's expansionist strategy and by its desire to control productive or other facilities in foreign countries. Economic, political, and technological developments in the post-

[12] Stephen Hymer first set forth his ideas in his 1960 doctoral dissertation, "The International Operations of National Firms: A Study of Direct Investment," which was not published until 1976 by the MIT Press.

war world had made overseas expansion of American corporations possible and even necessary. At the time of Hymer's writings, American corporations were rapidly expanding in the Western Hemisphere, the Middle East, and Western Europe. Anticipating both the subsequent application of industrial organization theory to the study of the MNC and the eclectic theory, Hymer argued that American firms invested abroad to exploit and preserve some firm-specific or monopolistic advantage.

Despite the potential importance of Hymer's scholarship, it made little impression on the economics profession. Unfortunately, Hymer's death at a young age meant that he had no opportunity to develop and defend his ideas. Hymer's ideas were neglected, at least in part, because his innovative thinking was too far ahead of the rest of the economics profession. Only years later did insights from industrial organization theory vindicate at least some aspects of his thinking. Another possible reason, however, for economists' neglect of Hymer's theories is that Hymer was a Marxist, and although economists deny that his Marxism posed a problem, I find this denial difficult to accept. Whatever the truth of the matter, it is the Marxist aspect of Hymer's innovative approach that is of interest at the moment.

In his Marxist or quasi-Marxist theory of the MNC, Hymer set forth, or at least foreshadowed, many (if not most) of the ideas that we now associate with radical critiques of the MNC. He believed that monopoly capitalism is driven by two fundamental laws. He believed the first law of international capitalism to be the law of increasing firm size: that as firms grow in size and scope, they expand both within and across national borders, creating a hierarchical core/periphery structure and international division of labor around the world. At the core of this international structure are the advanced capitalist economies, while the periphery is composed of dependent and exploited less developed economies.

Hymer's second law is the law of uneven development. He argued that due to their large size, considerable mobility, and monopolistic power, the MNCs exercise control over and exploit the whole world to their own advantage. These corporate activities produce a world economy composed of the exploiting wealthy societies of the north and the exploited impoverished societies of the south. Or, in language also used by dependency theorists, the development of the capitalist north and the underdevelopment of the peripheral south are integral and complementary aspects of international capitalism in the age of

the MNC.[13] Almost all the subsequent writings by radical scholars are in large part just variations on Hymer's provocative ideas.[14] This generalization also applies to many of those protesting the multinational corporation at the time of the WTO meetings in Seattle in 1999 and the IMF/World Bank meetings in Washington in 2000, even though the protestors doubtless were unaware of Hymer's theories.

State-centric Interpretation. State-centric writings on the multinational corporation assert that the rise and success of the MNC in the modern world could have happened only within a favorable international political environment. They maintain that despite the several theories of business economists, the MNC cannot be explained solely in terms of market forces and/or corporate strategies.[15] While economic factors are obviously important for the emergence and success of MNCs, they could not exist without a favorable international political environment created by a dominant power whose economic and security interests favor an open and liberal international economy. Just as the Pax Britannica provided a favorable international environment for the overseas expansion of British firms and investors in the late nineteenth century, so American leadership following World War II provided a similarly favorable international environment for the overseas expansion of American and other capitalist firms in the post–World War II era. In the 1980s and 1990s, the United States, Western Europe, and Japan all had an interest in maintaining and even strengthening international conditions that favored MNCs. State-centric writers believe that if the consensus and cooperation of the major capitalist powers were to break down, the predominant role of the MNC in the world economy would gradually diminish.

The state-centric position also assumes that multinational firms are essentially national firms competing with one another around the world. Proponents of this position argue that these firms are closely attached to and ultimately dependent on their respective home economies. As Paul Doremus and his colleagues point out in their excellent book, *The Myth of the Global Corporation* (1998), each MNC is a

[13] Among the more innovative and influential extensions of Hymer's early work is Robert Cox, *Production, Power, and World Order: Social Forces in the Making of History* (New York: Columbia University Press, 1987).

[14] For example, see William Greider, *One World, Ready or Not: The Manic Logic of Global Capitalism* (New York: Simon and Schuster, 1997).

[15] This is the thesis of my book *U.S. Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment* (New York: Basic Books, 1975).

distinctive product of its home base and reflects its social, economic, and political values.[16] Despite the hyperbole of corporate executives and business consultants that MNCs have shorn themselves of national coloration and become stateless enterprises, MNCs are actually deeply embedded in and very much a product of the history, culture, and economic systems of their home societies.

The Multinationals and the International Economy

The world's largest MNCs account for approximately four-fifths of world industrial output while typically employing two-thirds of their work force at home; they are not nearly as footloose as many critics charge.[17] Foreign direct investment (FDI) has been growing at a rapid rate. Between 1985 and 1990, FDI grew at an average rate of 30 percent a year, an amount four times the growth of world output and three times the growth rate of trade. FDI has in fact become a major determinant of trade patterns. The annual flow of FDI has doubled since 1992 to nearly $350 billion. Intrafirm trade—that is, trade among subsidiaries of the same firm—accounted for one-third of American exports and two-fifths of U.S. imported goods in 1994. About one-half of the trade between Japan and the United States is actually intrafirm trade. This intrafirm trade takes place at transfer prices set by the firms themselves and within a global corporate strategy that does not necessarily conform to the conventional trade theory based on traditional concepts of comparative advantage. Evidence suggests that these trends will continue and could even accelerate.

The gross statistics, however, hide noteworthy aspects of FDI and of other activities of MNCs. Despite much talk of corporate globalization, FDI is actually highly concentrated and is distributed unevenly around the world. Although FDI has grown rapidly in developing countries, most FDI has been placed in the United States and Europe, while only a small percentage of U.S. foreign direct investment has gone to developing countries. This concentration of FDI is due to the simple fact that the United States and Europe are at present the world's largest markets. Nevertheless, throughout most of the 1990s, FDI in less developed countries (LDCs) grew at about 15 percent annually. However, FDI in LDCs has been highly uneven and concentrated in a small number of countries, including a few in

[16] Paul N. Doremus, William W. Keller, Louis W. Pauly, and Simon Reich, *The Myth of the Global Corporation* (Princeton: Princeton University Press, 1998).

[17] *The Economist,* 29 January 2000, 21.

Latin America, especially Brazil and Mexico, and in the emerging markets of East and Southeast Asia. The largest LDC recipient of FDI has been China. Between 1991 and 1995, foreign direct investment placed in the United States amounted to $198.5 billion; in China, $114.3 billion; and in Mexico, only $32 billion. The emerging markets were attractive, at least prior to the 1997 financial crisis, due to their rapid economic growth, their market-oriented policies, and their cheap labor. One should note, however, that the least developed countries in Africa and elsewhere have received a pitifully small percentage of the total amount invested in the developing world. Need it be said that this skewed distribution does not fit the image of globalization!

The increasing importance of MNCs has profoundly altered the structure and functioning of the global economy. These giant firms and their global strategies have become major determinants of trade flows and of the location of industries and other economic activities. Most FDI is in capital and technology-intensive sectors. These firms have become central in the expansion of technology flows to both industrialized and industrializing economies and therefore are important in determining the economic, political, and social welfare of many nations. Controlling much of the world's investment capital, technology, and access to global markets, such firms have become major players not only in international economic but in international political affairs as well, and this has triggered a backlash in many countries.

According to DeAnne Julius, one of the world's most knowledgeable experts on the MNC, the huge expansion of FDI, intercorporate alliances, and intrafirm trade throughout the 1980s and 1990s reached a level where "a qualitatively different set of linkages" among advanced economies was created; some have estimated that more than twenty thousand corporate alliances were formed in the years 1996–1998.[18] The growing importance of FDI and intercorporate cooperation means that the world economy has reached a "takeoff" point comparable to that wrought by the great expansion of international trade in the late 1940s and the subsequent emergence of the highly interdependent international trading system. The growth in FDI and in the activities of multinational corporations of many nationalities has linked nations more tightly to one another, and this has further affected the global economy.

[18] DeAnne Julius, *Global Companies and Public Policy: The Growing Challenge of Foreign Direct Investment* (London: Pinter, 1990).

The role of MNCs in the world economy remains highly controversial. Critics charge that foreign direct investment and the internationalization of production are transforming the nature of international economic and political affairs in ways that undermine the nation-state and integrate national economies. Impersonal market forces and corporate strategies are believed to dominate the nature and dynamics of the international economic and political system. While Kenichi Ohmae and many others may believe such a development to be highly beneficial for mankind, others regard the MNC as an exploitative imperium stalking the world. These critics believe that giant firms, answerable only to themselves, are integrating societies into an amorphous mass in which individuals and groups lose control over their own lives and are subjugated to firms' exploitative activities. The world, these critics charge, is coming under the sway of a ruthless capitalist imperialism where the only concern is the bottom line.

Many and perhaps most professional economists (with the important exception of business economists), on the other hand, discount the significance of multinational firms in the functioning of the world economy. The neoclassical interpretation acknowledges that large oligopolistic firms may be politically important and may also affect the distribution of income within national economies. However, these economists deny that the investment, marketing, and other economic activities of these firms around the world have any great impact on the "real" economy of international trade, location of economic activities, or national rates of economic or productivity growth. In neoclassical economics, the global location of economic activities and patterns of international trade are determined according to location theory and the principle of comparative advantage.

Both extreme positions are exaggerations. Critics exaggerate the evils of the MNCs and their role in the world economy. Although some MNCs do exploit and damage the world, the MNC as an institution is beneficial to many peoples worldwide; it is, for example, a major source of capital and technology for economic development. On the other hand, the proponents of the MNCs exaggerate their importance and overstate the internationalization of services and production. The nation-state remains the predominant actor in international economic affairs, and domestic economies are still the most important feature of the world economy. Although some convergence has been occurring, national societies retain their essential characteristics and are not becoming part of any homogenized amorphous mass. In an era of oligopolistic competition and rapid technological innovation, location theory and the conventional theory of compara-

tive advantage cannot tell the whole story of what is happening in the world economy. Multinational firms and their investment activities are important parts of the explanation.

Increased Regionalization of Services and Manufacturing

One of the most important recent developments in the world economy has been the internationalization of services and of industrial production, a development facilitated by falling costs for communication and transportation that have enabled firms to integrate production and other activities around the globe. Continuing restructuring of services and manufacturing was extremely important in the nature of the world economy as it entered the new millennium. Nevertheless, the importance of this development is frequently misunderstood and exaggerated. Whereas FDI in the year 2000 is only a small part of the total domestic investment of the rich countries, in the decade prior to 1914, British capitalists invested almost as much abroad as at home, and the European stock of FDI was higher in 1914 than it is relatively in the twenty-first century. Furthermore, contrary to the oft-stated opinion that MNCs have "globalized" technology and put their own firms everywhere on an equal footing, nothing could be farther from the truth. For reasons internal to the firms themselves, and because of conditions prevailing in many developing countries, technology tends to diffuse from industrialized to industrializing countries relatively slowly.[19]

Moreover, internationalization of services and production is highly concentrated among the major powers and within particular regions; one estimate made in the mid-1990s was that 85 percent of all foreign investment takes place among the members of the Triad (United States, Western Europe, and Japan).[20] The multinational firms of the three major economic powers have been concentrating their FDI in their respective backyards and fashioning regionalized production and service networks. American FDI has been shifting away from East and Southeast Asia toward Mexico. Whereas American firms relied previously on East and Southeast Asia as sources for components, outsourcing has recently been shifting toward Mexico; although be-

[19] This is the conclusion of Keith Pavitt in summarizing the pathbreaking work on technology policy and innovation carried out at the University of Sussex's Science Policy Research Unit.

[20] Robert Boyer and Daniel Drache, *States Against Markets: The Limits of Globalization* (New York: Routledge, 1996), 2.

cause of China's very low wage labor and vast potential as a market, China has been an exception to this trend. Japanese firms prefer East Asian subcontractors, and most of their manufactured imports have come from this region. Germany, for economic and political reasons, and to take advantage of East Europe's highly skilled and lower-cost labor, has been investing heavily in Eastern Europe, especially Poland, the Czech Republic, and Hungary. Evidence thus suggests that regionalism as well as globalism characterizes the strategies of multinational firms. While economic competition and financial markets have become increasingly global, production and services are increasingly regional.[21]

The trend toward regionalization of investment, services, and production can be explained in several ways. New methods of production and management, such as "lean production" and flexible manufacturing, encourage regionalization; both techniques require highly trained and motivated workforces that can be utilized more fully and with less risk at the regional than at the global level. Indeed, the need to move to low-wage areas has been greatly reduced as the share of unskilled labor in production has fallen dramatically since the 1970s. Regional concentration also facilitates scale economies in production. Another consideration is that regional production networks enable firms to be closer to their principal customers; this factor will become even more important as regional markets continue to develop in Western Europe and North America. Cultural affinities may also play a part in this trend. Furthermore, regionalization of production can insulate economies throughout the region from trade wars and currency fluctuations. For these and other reasons, the movement toward regionalization of production will continue within North America, Pacific Asia, and Western Europe and is likely to strengthen in Latin America and elsewhere.

The increased importance of regionalization in the world economy raises some disturbing possibilities. The trend toward regionalization could lead to weakening of the post–World War II movement toward trade liberalization. While the MNCs of the major economic powers continue to pursue global strategies and to invest in one another's economies (with the exception caused by Japan's relatively low level of inward FDI), they are also concentrating their own FDI in neighboring countries. Creation of regional rather than global production and sourcing networks has become a notable trend. If the movement

[21] Charles Oman, *Globalization and Regionalization: The Challenges for Developing Countries* (Paris: Development Centre of the OECD, 1994).

toward globalization should be slowed by increased regionalization of services and production, the open global economy could suffer a setback; this would have serious negative consequences for countries that were not members of a regional arrangement. And in the year 2000, most less developed economies lie outside the emerging regional blocs.

Debate over the MNC and the Nation-State

There are divergent views of the MNCs' role in the world economy and of their relationship to their home economies. On the one hand are some who believe that the MNCs' increasing importance in the organization and management of the international economy constitutes a transformation of global economic and political affairs. For them, globalization of production and the central role of the multinational firm in the world economy represent the triumph of market forces and economic rationality over the anachronistic nation-state and a politically fragmented international economy. On the other hand, the state-centric position argues that the extent and impact of globalization are greatly overstated and that the nation-state continues to set the rules that MNCs must follow. In this debate, the importance of multinational corporations is really not at issue, and few observers other than economists deny their significance. Powerful corporations, their far-flung subsidiaries, and their global alliances, as John Stopford and Susan Strange have demonstrated in their book *Rival States, Rival Firms* (1991), have, for more than a decade, been recognized as major features of contemporary international affairs.[22] However, arguments continue regarding the extent to which these corporate giants have affected the nature and organization of the international economy and the relative significance of the nation-state in its functioning.

MNCs have certainly introduced changes in the global economy. As firms have increased their presence in foreign markets, some distancing from their home economies has taken place and their national identities have been attenuated; yet, the greater part of a firm's production, R & D, and activity remains in the home economy. It is also true that the huge expansion of intrafirm trade has changed the meaning of imports and exports. If, for example, the overseas sales of

[22] John M. Stopford and Susan Strange, with John S. Henley, *Rival States, Rival Firms: Competition for World Market Shares* (New York: Cambridge University Press, 1991).

American subsidiaries are taken into account, then the United States has had a large trade *surplus* for many years. The increased international mobility of firms has encouraged national governments to pursue aggressive policies to attract FDI.

The Global Firms and the Borderless Global Economy

Kenichi Ohmae, the Japanese business consultant, is a strong proponent of the thesis that the MNC has become a powerful independent actor rivaling and even outstripping the nation-state in importance. In his book, *The Borderless World*, he argues that the global (i.e., stateless) firm is a natural response to a borderless world economy characterized by homogeneous consumer tastes.[23] The ongoing process of economic globalization, Ohmae contends, has transformed the very nature of the multinational corporation itself. In his view, the early multinational corporation treated foreign operations as appendages used to manufacture products that had been designed and engineered back home; in such a situation, the chain of command and the nationality of the firm were clear. However, Ohmae is convinced that the nature of the firm has changed drastically due to extensive outsourcing and integration of production and other corporate activities on a global basis. The transnational firms of the 1990s, he believes, have become truly global corporations that are stateless and independent of their national origins. Corporate planning, for example, is now more and more likely to be conceived in global rather than national terms. Even ownership itself has become unclear as equity-sharing, joint ventures, and corporate alliances unite firms across national borders. Ohmae and many others argue that the world's corporations are shedding their national identities and becoming true citizens of the world as they make their production and other decisions without special reference to their home country.

Those who agree with Ohmae maintain that alliances and linkages among global corporations across national boundaries have led to the home economy's loss of significance in the competitive success of the firm. Instead, Ohmae argues, the most important firms must have a strong base in all three members of the Triad—North America, Western Europe, and Japan. Firms need foreign partners to obtain market access or to share the increasing costs of research and product development. The increasing importance of scale economies and the escalating costs of R & D, as well as the rapid pace, scope, and cost of

[23] Kenichi Ohmae, *The Borderless World: Power and Strategy in the Interlinked Economy* (New York: HarperBusiness, 1990).

modern technology, all encourage the growth of corporate alliances within and across national borders.

Ohmae and others argue that international corporate alliances have undermined the significance of national boundaries and created transnational links that override national political differences. Although corporate alliances can be identified in all industries, they are especially important in such high-tech sectors as aerospace, electronics, and automobiles, which are characterized by costly research-and-development activities, large economies of scale, and a high risk of failure. The rapid pace of technological change, the huge costs involved in technological innovation, and protectionist regional arrangements mean that even the largest firms need foreign partners with which they can share technology and other resources as well as gain access to protected markets. According to this formulation, there is international competition between industrial complexes composed of major corporations rather than between individual firms, and therefore a firm's international standing depends on the relationships that it has been able to establish with other firms.

The process of economic globalization, according to this position, has several important consequences for the overall world economy. Some allege that within the Triad itself, there is a trend toward economic convergence; many believe that the production, financial, and technological structures of the leading economies are following a common pattern. Also, the ups and downs of Triad economies are viewed as synchronous, moving together through business cycles and having common economic policies. Growing trade, investment, and technology flows within the Triad have drawn the major economies closer together, and the global firm has become both a cause of and a response to the increasing integration of the world economy.

The global economy populated by these firms has been described by former Clinton Administration Labor Secretary Robert Reich as a seamless web in which there no longer are any purely national economies, corporations, or products.[24] In a world where components may be made in several countries, assembled in another, and sold in yet a third, the nationality of a particular firm or good has become almost impossible to identify and, moreover, has become irrelevant. Reich and others have contended, therefore, that traditional measurements of trade and payments balances have lost significance. Reich has argued that even though the United States had a substantial trade and

[24] Robert Reich, *The Work of Nations: Preparing Ourselves for the 21st Century Capitalism* (New York: Knopf, 1991).

payments deficit in the 1980s and 1990s, this deficit was offset by a surplus in foreign production and sales by the subsidiaries of American multinational corporations.

The considerable increase in the internationalization of business in the 1990s gives support to those who argue that globalization has triumphed. One-half or more of the products manufactured in the United States contain one or more components produced elsewhere, and in some cases it is difficult to classify the nationality of the product: Are the Honda Accords, many of which are made in the United States, an American or a Japanese car? One-half of all imports and exports in the world economy are estimated to be transactions between parent corporations and subsidiaries. Although many more statistics and anecdotes could be cited to support the triumph of globalization, I maintain that multinational, transnational, or, if you prefer, global firms are still national firms conducting international business.

MNCs and the Nation-State

In an opposed view, MNCs are considered products of their home economy. Both industrial production and service industries are believed to be primarily nation-based.[25] Although it is true that the total volume of goods produced overseas by American firms had increased significantly to around 20 percent of total production by the end of the century, in the early twenty-first century the remaining 80 percent of the American economy was still largely insulated from the world economy. With few exceptions, a firm's primary market is still its home market, and the policies of home governments weigh more heavily in the decisions of the firm than do those of host governments. Moreover, it is important to remember that foreign markets are also national markets and that corporate strategies must be geared to other national markets and to the policies of host governments.[26] In addition, internationalization of services and production are occurring on a regional basis more frequently, especially in Europe and North America. And the policies and organizations of emerging regional blocs tend to reflect the economic and political interests of their dominant member states.

[25] See Razeen Sally, "Multinational Enterprises, Political Economy and Institutional Theory: Domestic Embeddedness in the Context of Internationalization," *Review of International Political Economy* 1, no. 1 (spring 1994): 161–92.

[26] Stephen Thomsen and Stephen Woolcock, *Direct Investment and European Integration: Competition Among Firms and Nations* (London: Royal Institute of International Affairs, 1993).

An excellent exposition of the state-centric position can be found in *Multinationals and the Myth of Globalization*, by Doremus et al., mentioned earlier (see footnote 16). This careful study, which examines the behavior of American, German, and Japanese multinationals across a broad range of industrial sectors and activities, successfully challenges the argument that technological, economic, and other transnational forces are leading to a convergence of state policies, domestic economic structures, and MNC behavior. Instead, the authors find that the domestic structure and economic ideology of the home economy continue to affect powerfully the strategies and activities of MNCs. They illustrate many significant differences among the firms of the three dominant economies and note that these differences can be explained by domestic factors, such as the historical experience of the country, differing economic ideologies, the structure of the economy, and the internal mechanisms of corporate governance. Although such firm-specific factors as the firm's industrial sector and the characteristics of its products obviously affect the firm's behavior, the authors convincingly demonstrate that, in the most fundamental areas of corporate strategy, the domestic roots of firms usually remain decisive determinants of their behavior.

Many basic differences in corporate strategy and behavior reflect national institutional structures, economic policies, and social priorities. The United States has tended to take a laissez-faire attitude toward business, except when an especially strong case can be made for government intervention. Germany, on the other hand, with its concept of the "social market" and labor/management partnership, has traditionally placed a greater emphasis on the social or community responsibilities of the firm. Japan has placed a high priority on maintaining a strong indigenous industrial base and preserving core elements of the system of lifetime employment. The resulting behavioral differences among American, German, and Japanese firms can be found in such core aspects of corporate behavior as patterns of strategic investment, intrafirm trade, research and development, corporate governance, and long-term corporate financing. American firms are more likely than German or Japanese firms to conduct basic R & D in other countries; they also are much more likely to invest abroad. National differences are reflected, too, in the levels of intrafirm trade. Whereas American firms are characterized by only a moderate level of intrafirm trade, German firms have a higher level, and Japanese firms have a very high level. This brief list of national differences could be expanded considerably; however, there have been many

changes in national traditions, and there is a modest trend toward convergence in corporate behavior and structure.

Arguing that the nation-state is still the principal actor in international economic affairs, proponents of the state-centric position assert that multinational corporations are simply national firms with foreign operations and that, with few exceptions, these firms remain deeply embedded in their national societies. Their boards of directors and corporate management are composed predominantly of nationals, and corporate leaders are responsible to stockholders or stakeholders who are also overwhelmingly nationals. Even though this situation is changing, relatively few firms have foreign nationals as corporate directors or members of top management. Furthermore, control over corporate finances is normally retained in the home country. The key elements of research and development are also still retained in the home economy. The strategy of the firm is influenced strongly by home-country policies and other local considerations; despite some common factors such as the importance of outsourcing to reduce costs, corporate strategies are not converging toward a common pattern. And every government in one way or another promotes the interests of its own national firms. In short, at the turn of the century, there are no truly stateless global corporations, and it will undoubtedly be decades before some do emerge if they do so at all.

There is no question that intercorporate alliances have gained great importance in the organization and functioning of international business, but the significance of this development can easily be and has been overstated. Alliances among corporations of different nationalities have created valuable crossnational or transnational ties, yet intercorporate alliances are notoriously unstable. About 40 percent of these alliances last only about four years. Their fragility or inherent weakness is because, while corporate alliances may provide for cooperation in such specific areas as research on a particular technology, or cooperation in a particular market, the firms frequently continue to be fierce rivals outside the realm of the agreement. Corporate alliances are driven by a firm's desire to increase its market share; thus, when situations change, the interest of the corporation in the alliance may well change also. Indeed, corporate alliances far removed from commercialization are likely to fare better than other alliances. All in all, corporate alliances are matters of power and interest and are just as fragile as alliances among states.

In *The Competitive Advantage of Nations*, Michael Porter demonstrates that the national economy remains the predominant economic

entity in the global economy. In his analysis, the home base of a multinational firm is the central determinant of the firm's international competitiveness. Multinational firms are and must continue to be national firms, he argues, because their competitive advantage is created in and must be maintained in their home economy. Porter argues that the world economy is organized in clusters of industrial excellence that are nation-based. The competitiveness of these national clusters, such as the strength of Japanese firms in automotive products or of American firms in computers, is determined by local factors and national policies. National specialization, strong national firms in particular industries, and differentials in national wealth all indicate the continued importance of national economies.

Although American academics, American corporate leaders, and Japanese business consultants may propagandize the idea of the global corporation, Japanese business and the Japanese government have definitely not accepted the idea that corporations have shed their nationality and become stateless. The giant Japanese electronics conglomerate Matsushita is and always will be Japanese; the task of the Japanese Ministry of International Trade and Industry (MITI) is and always will be to promote the interests of Matsushita and other Japanese corporations. Indeed, the well-being of these corporations is considered identical to the well-being of Japanese society. While Americans may ridicule the remark of then Defense Secretary "Engine Charlie" Wilson that "what is good for General Motors is good for the country," the Japanese really do believe that what is good for Matsushita or Toyota is good for Japan. Japanese society considers the overseas sales of *Japanese* products and the market share of *Japanese* firms to be very important. Nor are the concepts of the global corporation and the seamless world economy very appealing to those West Europeans who are attempting to create a unified European economy and strong European corporations that will compete effectively against their American and Japanese rivals.

An International Regime for FDI and MNCs

In light of the increased significance of the MNC in every facet of the global economy, it is remarkable that there are no international rules to govern FDI, not even any that are comparable to those affecting international trade and monetary affairs. There are national, bilateral, regional, and multinational agreements on MNCs and FDI, but no overall comprehensive agreement. Although the Uruguay Round moved toward establishment of such rules, it fell far short of establish-

ing a satisfactory regime to regulate FDI. Many economists believe that an investment regime is unnecessary because markets will discipline errant states and firms. Perhaps! But this is asking too much of markets. There is evidence to the contrary, that an international agreement governing MNCs and FDI is desirable. Such an agreement could "lock in" the trend toward liberalization of national policies affecting FDI, eliminate distortions caused by governmental "beggar-thy-neighbor" policies, and reduce conflicts among states and multinational firms.

Canadian trade negotiator Sylvia Ostry has suggested that a satisfactory international investment regime would have to embody several characteristics, including the rights of establishment, national treatment, and nondiscrimination.[27] The right of establishment means that firms of every nationality have the right to invest anywhere in the world. The principle of national treatment requires that national governments must treat the subsidiaries of foreign firms as if they were their own. In addition, countries should not discriminate against the firms of particular countries; this provision makes it necessary that national policies governing inward-FDI should be transparent. An investment regime would also have to deal with the fact that every country restricts or limits investment in certain economic sectors, such as finance, culture, and national security. Another task would be to determine which types of national restrictions are legitimate and which should be prohibited. Although these objectives are reasonable, the political obstacles to incorporating them into an international investment regime are formidable.

Several important initiatives have been launched to govern MNCs and FDI, but none have advanced very far by the beginning of the twenty-first century. FDI impinges directly on national economies and can infringe on national values and economic independence. For this reason, states, especially less developed countries (LDCs), are reluctant to surrender jurisdiction in these matters to an international body. They fear domination by the huge corporations of the United States and other industrialized economies. Moreover, the very fact that MNCs operate across two or more national jurisdictions makes the task of framing an international regime extraordinarily difficult. An investment regime would have to address such sensitive issues as taxation of foreign investment, transfer pricing (the prices charged by one subsidiary to another), and governmental use of financial and other questionable inducements to attract foreign investment. A par-

[27] Sylvia Ostry, *A New Regime for Foreign Direct Investment* (Washington, D.C.: Group of Thirty, 1997).

ticularly vexing problem for America's trading partners is the extraterritorial application of American law, not just to the foreign affiliates of American firms, but also to those of foreign corporations. For example, the Helms-Burton Act punishes foreign firms that deal with Cuba and is an especially infamous example of American efforts to impose its own laws and policies on other countries. LDCs and other smaller states want protection against the concentration of power represented by the MNCs, while corporations want guarantees against capricious actions by states; there is understandable distrust on both sides.

Do Global Corporations Pose a Threat?

The large size of MNCs, their market power, and their pursuit of global strategies have raised fears in many groups and countries that they will become subjugated to and exploited by MNC globalization of production and services. These concerns are not groundless, as MNCs do represent huge concentrations of economic and, frequently, political power. In the 1980s and 1990s, a massive expansion of corporate power took place in the United States, Western Europe, and elsewhere. This merger wave was due to a number of factors: the spectacular American stock market that has given some large firms the capital to take over others, deregulation and the weakening of antitrust policy, and new communications and other technologies that enable firms to oversee larger operations and enjoy greatly increased economies of scale.

Increasing concentration of power among media, entertainment, and telecommunications firms has been one of the most disturbing consequences of the merger movement and corporate aggrandizement.[28] Two prominent examples of such concentration are the merger of America Online, Inc., with Time Warner in January 2000 and Vodafone AirTouch's acquisition of Mannesmann A.G. The trend toward larger and larger firms in the media sector emerges from the logic of digital business itself. Although competition is fierce and uncertainties are great in these sectors, established firms enjoy economies of scale and find it easy to expand because the cost of replication of digits is relatively minuscule. Thus, once these firms whose expertise and competitiveness lies in the manipulation of digits establish

[28] Despite the antitrust action against Microsoft, the Clinton Administration was very tolerant toward the rapid and extensive merger movement in the United States. Secretary of the Treasury Summers and others argued that competition in the American economy is robust as globalization has more than offset the negative effects of mergers and reduced the pricing power of big firms. In addition, economies of scale and increased efficiency achieved by mergers are believed to help consumers.

themselves, it is not costly to expand to incorporate other digital or would-be digital firms (such as Time Warner). In this way, economies of scale in e-commerce appear to lead to massive scale in corporate structure. Although the United States has been the forerunner of this development, similar restructuring has begun in Western Europe.

Paradoxically, corporate globalization is associated with both increased scale and increased competition. Although many fear increased scale, the benefits of increased competition are enormous, whether or not they are appreciated. Consider, for example, the benefits to the American consumer and economy as a whole from Japanese exports and investments. Japanese exports to the United States have meant that the American consumer has enjoyed a much wider range of goods of high quality and lower price. The American economy as a whole has also benefited from Japanese FDI and introduction of such Japanese production techniques as lean production. Would the American consumer and overall economy really have been better off if barriers to imports and investment had kept out Sony and Honda? I doubt it very much. Consumers and the overall economy in less developed countries also benefit from FDI, and so do workers. It is important to note that, in general, MNCs pay higher wages, create more jobs than do domestic firms, and have higher labor standards; and the economy gains capital and technology from the MNCs. This means that MNCs can be particularly important to LDCs, especially to those where agriculture is predominant. MNCs in Turkey, for example, pay 124 percent of average Turkish wages.[29]

Maintenance of a strong regulatory system and encouragement of firms of many nationalities to invest and compete in the local market can provide an effective response to the dangers of corporate power. Despite these and other safeguards, a global economy populated by powerful multinational firms is a daunting prospect, especially for the firms and governments of small, poor countries. There is a great temptation to close national borders to imports and to foreign direct investment. However, such a response to the increasingly integrated global economy could be extremely costly. Without access to foreign capital and technology, economic development would be very difficult or even impossible; as Nobel Laureate Arthur Lewis, from the Third World himself (Barbados), has pointed out, developing countries must have large infusions of outside capital to build the costly physical infrastructure required for their economic development.[30] Debt forgiveness, foreign aid, and technical assistance could help

[29] *The Economist*, 29 January 2000, 21.

[30] W. Arthur Lewis, *The Evolution of the International Economic Order* (Princeton: Princeton University Press, 1978).

close the rich-poor gap, but these measures are hardly enough. Although for many, globalization is a threat, it is also part of the solution to underdevelopment; the industrial success of the emerging markets of East Asia exemplify the importance of trade, foreign investment, and technology imports.

The argument that small countries cannot compete in the world of the strong is nonsense and is contradicted by experience. Tiny Finland has established itself as a leader in wireless telephony (Nokia) and other high-tech industries. Israel is a world leader in many technological developments. Ireland has reversed a century and a half of economic stagnation by making itself an attractive site for investment by high-tech firms. Among industrializing and less developed countries, India has become a major international player in computer software. Taiwan has a flourishing semiconductor and computer industry, and Singapore and Hong Kong have outstanding records of economic success. However, if an LDC is to join this league of small but very successful countries, it must have an honest and competent government, invest heavily in education at all levels, respect international property rights, encourage entrepreneurship, support a diversified and excellent national program of R & D, and pursue sound macroeconomic policies. A nation that is unwilling to assume these crucial responsibilities is quite unlikely to succeed in the global economy and risks domination by foreign firms. Unfortunately, too many less developed and postcommunist economies are at serious risk.

Conclusion

The role of the MNC has grown increasingly important in the integration and organization of the global economy. Yet, it is important to appreciate that most economic activities are still overwhelmingly nationally based. Moreover, the prevailing idea that MNCs are destined to rule the global economy may turn out to be quite misleading. The global economy rests and must continue to rest on a secure social and political foundation, and there is no guarantee that this foundation will survive in the decades ahead. As the economic historian William Parker reminds us, in the late nineteenth century the international capitalist system began to break down because of a mismatch between new large-scale capitalist firms and the interests of many Europeans.[31] Today, this sober analysis would have to be expanded to include a global economy composed of diverse cultures and interests.

[31] William N. Parker, "Capitalistic Organization and National Response: Social Dynamics in the Age of Schumpeter," in Richard H. Day and Gunnar Eliasson, eds., *The Dynamics of Market Economies* (Amsterdam: North-Holland, 1986), 351.