Multinational Enterprises and Global Worlds*

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Introduction

This paper examines the changing composition and organisation of international business over the last century. It does not seek to duplicate the standard works on the historical evolution of multinationals (MNEs), including the still-unsurpassed database generated by the Multinational Enterprise project conducted at Harvard Business School in the 1960s and 1970s.[1] Instead, based on a benchmark definition of MNEs as firms that control income generating assets in more than one country, it widens the focus from the large industrial enterprises which have pre-occupied many researchers on MNEs, to a more complex and varied world of firms which have engaged in international business, and whose growth has been far from linear.

The discussion is organised around two principal themes: the role of international business during the disintegration of 'first global economy' which it had played an important role in creating during the half century before 1930, and –secondly- the role of MNEs in the making of a new global economy.

MNEs and the Disintegration of a Global Economy

At the end of the 1920s international business was extensive and widely spread around the world. It had grown rapidly for the previous fifty or so years in response to a variety of factors, including the combination of capital mobility and trade protectionism, the demand for raw materials and foodstuffs generated by the Second Industrial Revolution, the spread of colonialism and the widespread acceptance of international property law which had reduced the risks of FDI, and improvements in transport and communications which had reduced the costs of managing at a distance. By this date many of the twentieth century's largest MNEs were already widely spread internationally, including Ford and General Motors, Nestle and Unilever, Shell and Standard Oil of New Jersey.These multinational giants co-existed with thousands of small and medium sized firms which had invested abroad, sometimes in clusters or networks with other firms, which often performed as significant roles as their larger brethren as transferors of entrepreneurship, organisations and culture across borders.

The only estimates of the overall size of world FDI remain the heroic efforts of John Dunning, who suggested that it had reached around one-third of total world foreign investment, or $14,582 million, by 1914.[2] This was equivalent to around 9 percent of world output at the time.[3] Despite the disruption of the First World War, it grew further in the 1920s, if perhaps not in the following decade, to reach $26,350 million by 1938.[4] At the end of the 1920s, most of the stock of world FDI continued to originate from a handful of Western European economies, especially the United Kingdom, which accounted for around 40 percent. The United States accounted for no more than a quarter of total stock, though it had probably replaced the UK in terms of flows during the 1920s. FDI was widely dispersed around the world. Latin America and Asia probably accounted for over 50 percent of FDI stock, though in terms of individual host economies, Wilkins identifies Canada and the United States as the two top hosts in 1929, followed by a cluster of developing countries.[5] Few countries in the world, even including the Soviet Union, were untouched by foreign enterprise, even if FDI had a persistent tendency to be clustered geographically.

Many unanswered questions remain concerning the dimensions of FDI in this period. The United States is the only country with remotely plausible FDI estimates. A great deal of international business was undertaken using corporate forms where the distinction between portfolio and direct investment was indistinct Much FDI was in colonies, which might or might not be considered as 'real' FDI, while there was also a great deal of FDI which was located in geographically proximate regions, such as US investment in Canada and Mexico, or European investment in neighbouring countries, which might be treated as multi-regional rather than multinational investment.

Nonetheless the achievements of MNEs in creating a 'global economy' were remarkable. By the 1920s many of the world's natural resources were produced, traded and distributed by MNEs. In petroleum, most of the world's oil outside the United States was produced and marketed by a small number of large MNEs. In 1928 over 40 percent of the oil produced in Latin America was by two MNEs.[6] There was a similar MNE concentration in a range of other minerals, including aluminium, copper and tin. These industries were characterised by high levels of intra-firm trade in the hands of vertically integrated MNEs. In renewable resources the picture was more mixed, with the production of some commodities such as cotton and tobacco remaining outside foreign control, but in others such as sugar cane, tea, bananas and rubber, production and distribution was largely controlled by various forms of multinational firm.[7]

The global reach and impact of service sector MNEs at the end of the 1920s was striking.. During the nineteenth century they had put in place the banking, trading and informational infrastructure of the first global economy, and they had significant welfare effects through the transfer of organisational and technical competences to developing countries. Multinational banking, which had started around the 1830s, had reached considerable proportions by the 1920s. It mostly took the form of specialist 'overseas banks', mostly headquartered in European countries, with branches in developing regions. In 1928 British multinational banks alone controlled over 2,250 branches spread over Latin America, Africa, Asia and Australasia, which financed international trade, undertook foreign exchange dealings, and provided retail banking services.[8] French, Dutch and other European banks had less extensive branch networks, while Japan's Yokohama Specie Bank had over 40 branches elsewhere in Asia, Europe, the Americas and Australia by the late 1920s.[9] The banking market in the United States was effectively isolated, but the First World War and the 1920s saw the Citibank foreign network reach almost 100 branches by 1930, two-thirds of them in Latin America.[10]

On a par with multinational banking, European and Japanese multinational trading companies controlled large shares of international trade, especially but not only, in commodities. The desire to overcome transactions and information costs led some firms to diversify into processing, resources and other services. A number of the larger British trading companies had workforces of 100,000 - 150,000 by the late 1920s, making them among the world's largest multinational employers.[11]

Finally, a global transportation and communications network had been put in place by MNEs. Cable and later wireless telegraph companies, such as MacKay, Eastern

Companies, Marconi, ITT and the Great Northern Telegraph Company, developed a global telecommunications infrastructure which lessened the risks of FDI by making the control of assets over long distances more feasible. Large shipping companies had cut the costs and speed of oceanic transport by building global networks of steamship lines, facilitated by the cutting of ship canals such as the Suez and Panama Canals.

By the late 1920s multinational manufacturing was also well-established phenomenon. Many companies manufactured abroad by this period, especially in industries characterised by proprietary technologies, brand names and other intangible assets which gave rise to high transaction costs in market-based arrangements. Tariffs always provided a stimulus to multinational manufacturing, and during the 1920s growing protectionism was accompanied by new waves of multinational investment in industries such as automobiles.[12]Among these firms were the large industrial enterprises which had developed from the late nineteenth century, separating ownership from control, and making investments in production, marketing and professional management.[13]A number of these large firms 'integrated' their international operations. By the interwar years many US marketing affiliates in Britain were engaged in some exporting activity, rather than simply supplying the domestic market, while US and Swedish MNEs internationalised their technological activity to a high degree by this period.[14]Co-exisiting with the large industrial enterprises, were thousands of SMEs, often family-owned, with one of more production facilities in a foreign county.

Between the 1930s and the 1970s many of the key components of this first global economy were destroyed, dismantled or diminished by a series of exogenous shocks. The first of these shocks was the Great Depression. This was not the first interwar recession and, indeed, the extremely severe 1920-21 recession had a more severe impact on - say - multinational trading companies - than its later counterpart.[15] Nevertheless the consequences of the Great Depression on the international economy created a new and much more unfavourable environment for international business. Exchange controls, the collapse in capital mobility, protectionism, the decline in primary commodity prices, falling incomes in many developed countries, and the spread of nationalistic governments in Europe and Asia presented a formidable challenge to international business.

In a range of manufacturing and resource industries MNEs responded to these circumstances by forming international cartels as an alternative to FDI. During the 1930s a considerable proportion of world manufacturing became controlled by such agreements, which were often supported by European governments.[16] These cartels regulated price and/or output, but otherwise differed enormously in their aims, membership, administration and durability. They flourished especially in industries where there were a relatively small number of producers and/or depressed market conditions, 'Classic' examples included the international cartels in chemicals, electric lamps and steel, which – unlike many collaborative arrangements between firms, were sustained over substantial periods of time.[17] In contrast, international cartels remained rare in fast-growing industries such as automobiles and branded consumer goods, and industries such as textiles with large numbers of producers.

In resources, the problem of excess capacity and falling prices led to a virtual halt in new FDI and also to wide-ranging cartel agreements. The 'Achnacarry Agreement' signed in 1928 between the world's three largest oil companies was a symbol of such interwar cartels, even though in reality the oil majors never succeeded in regulating the US domestic market or preventing 'outside' supplies undermining agreements elsewhere.[18] The attempts by MNEs to cartelise the world copper industry were even less successful.[19] In contrast, in other mining industries such as tin, aluminium and diamonds, small numbers and government support led to strong and maintained cartels.[20] Similarly in tea and rubber, European trading companies were able to put in place successful cartels to support prices and restrict output, though they failed in other sectors, such as teak.[21]

Although the 1930s saw the use of international cartels as a substitute for FDI in many resource and manufacturing industries, the MNEs of earlier decades did not disappear, nor did new investments cease. In automobiles and consumer goods industries, and even in chemicals, new investments continued to be made. There were almost as many new US entrants into British manufacturing in the 1930s as in the 1920s, though there were also many more divestments than in the earlier decade.[22] While some large US MNEs divested from European manufacturing, in some cases the same firms opened new factories in Latin America, Asia and Australia to take advantage of import substitution opportunities.[23] British-owned MNEs which made major new investments behind tariff barriers in the 1930s, principally either in the politically safe Empire countries or else in Latin America.[24] Companies with operations in countries with tight exchange controls, such as Nazi Germany, also found themselves making 'enforced investments' out of profits. Unilever, the Anglo-Dutch margarine and detergents MNE which had inherited a large German business from its predecessor companies on its formation in 1929, diversified into cheese, printing, ice cream, hair dyes and even shipbuilding in order to spend its trapped funds.[25]

In services, where there were few international cartels apart from shipping, foreign MNEs found themselves progressively blocked from activities which were reserved by governments for nationals or state-owned firms. Examples included telecommunications, electricity and transport utilities, which Latin American and other governments began to exclude foreign firms from the 1930s, and airlines, where governments blocked foreign ownership.[26] As ever, there were exceptions. Canadian-owned utilities retained substantial market shares in Mexico and especially Brazil: Brazilian Traction, for example, produced 60 percent of Brazil's power and 75 percent of its telephones in 1946.[27] The Soviet Union closed its borders to all forms of foreign enterprise, but Denmark's Great Northern Telegraph Company continued to own and operate the Trans-Siberian line throughout the 1930s.[28] On a much wider scale, although international trade slumped in the 1930s, some multinational trading companies flourished. Japan's *sogo shosha* grew alongside Japanese exports, opening up new markets in Latin America, the Middle East and the Soviet Union, and creating 'global sales networks'.[29] A number of Swiss trading companies, such as André, grew particularly fast in this period also.[30]

Perhaps the most significant consequence of the 1930s was not to slow the growth of multinational investment - which it surely did - but to make MNEs more 'national'. Trade barriers and exchange controls led to the increased autonomy of national affiliates, which increasingly became responsible for most of the value-added chain of their products.[31] Nationalism encouraged firms to strengthen their 'local' identities. In Europe, US producers such as IBM, Ford and General Motors responded to European competition by developing new products for major markets which were distinct from those produced for their domestic American markets.[32] In some cases, US MNEs sold part of the equity of their European affiliates, mostly because of their liquidity problems in the United States, which further enhanced the autonomous and quasi-independent standing of their subsidiaries.

The 'older' forms of multinational business which had been so important in the creation of the first global economy moved in the same direction. The European overseas banks, faced by the decline in international trade, responded by extending their lending to businesses not related directly to trade and exchange. In Asia, the Middle East and Africa, this often led the British banks into modifying their traditionally conservative regulations on collateral, sometimes making loans solely on the basis of reputation.[33] European trading companies were seriously adversely affected by falling commodities prices and trade barriers and also responded by deepening their involvement in local economies. In Latin America, British trading companies in countries such as Chile, responded to the growth of local industries by distributing their products instead of foreign imports. They also redirected their business towards the goods in which international trade was still growing, such as branded consumer products and automobiles.[34] Dutch trading companies, like their British counterparts, sought to distribute Japanese goods, and they also began manufacturing textiles and other products in their principal host region, the Dutch East Indies.[35]

The second exogenous shock to international business was the Second World War. The First World War had already changed the 'policy environment' for MNEs by identifying the ultimate national ownership of firms as a political issue. The sequestration of German-owned affiliates by US, British and other Allied governments not only virtually reduced the stock of German FDI to zero, but also signalled the end of the era when foreign companies could operate in most countries on more or less the same terms as domestic ones. The sequestration of foreign properties without compensation after the Russian Revolution in 1917, and the Mexican expropriations of foreign oil companies in 1938, further raised the political risks of MNE investment.

The Second World War reinforced and intensified the political risks of FDI. During the interwar years German chemical and other firms had sought to rebuild their international distribution networks and even their foreign production subsidiaries.[36] The total loss of all German overseas assets once again as a result of the war was followed by an extremely subdued level of German FDI through until the 1970s, as German firms opted to export rather than engage in risking FDI. There was a similar phenomenon in the case of Japan. During the interwar years Japanese FDI was small in absolute terms, but very considerable relative to the size of the Japanese economy. The worldwide activities of Japanese trading and the service sector companies, as well as investments by Japanese cotton textile and mining companies in the markets and resources of Asia, resulted in the creation of a complex international business system. After the loss of all Japanese FDI at the end of the War, Japanese firms focussed on exporting until the 1970s.[37]

These developments left world FDI as far from 'global' phenomenon after the Second World War Between 1945 and the mid-1960s, the United States alone may have accounted for 85 percent of all new FDI outflows. Among the Europeans, only British and Dutch firms opted to make substantial FDI in the era of the postwar 'economic miracles'. As a result, between 1945 and 1980 between two thirds and three quarters of all world FDI stock was accounted for by firms from the US, the UK and the Netherlands.

The third exogenous shock to international business was the decline in receptivity to MNEs, especially but not only in the developing world. The end of European colonial empires, the spread of Communism, and growing state intervention in economies were all factors behind this trend. In 1949 the Communist Revolution in China, one of the world's largest host economies before the War, led to the total exclusion of foreign MNEs until the late 1970s. Elsewhere decolonisation was often followed by the imposition of regulatory controls on foreign firms. In India, also once a large host economy, first high taxes and from the 1960s increasing control and regulations, reduced foreign FDI to minuscule levels by 1980, as established foreign firms divested and new ones avoided the country. In the Middle East, Indonesia and elsewhere there was outright nationalisation of foreign-owned oilfields, mines and plantations from the 1950s. Until the 1970s the political and military hegemony of the United States deterred mass expropriations of MNEs, but in that decade the deluge began, as both the influence of the United States declined, and some developing countries acquired the technical and managerial abilities to run their own industries. During the 1970s there were a large number of expropriations in the developing world, with virtually all MNE ownership of mining, petroleum and plantation assets wiped out.[38]

The nationalisations of the 1970s shattered the integrated MNEs which had once controlled so much of the world's resources. Vertical integration down to the production level was weakened or eliminated in most commodities causing a decline in intra-firm trade flows. The resource MNEs had to switch from equity to contracts in order to access developing country resources. In the oil industry, between 1970 and 1976 at least eighteen countries - accounting for three quarters of international oil production -

nationalised oil-producing operations. This demolished the traditional structure of the international oil industry, though MNEs were able to preserve some elements of it by switching their exploration to the North Sea, Alaska and other politically 'safe' locations.[39]

In essence, during the three decades or so after the Second World War MNEs lost the great importance they had once held in the developing world, though the process often proceeded rather slowly. For example the disappearance of Africa from the orbit of international business was not as rapid or linear as might be imagined. Between the 1940s and the 1980s Nigeria's- and West Africa's-largest modern business enterprise was the United Africa Company, a diversified trading company owned 100 percent by Unilever. State intervention in commodity marketing even before Nigerian independence and growing competition obliged the firm to withdraw from producing marketing and general trading during the 1950s, but the venture was reborn as an importer of specialist products such as automobiles and tractors, and through joint ventures it became a major brewer and textile manufacturer. Despite being obliged by West African governments to sell part of its equity to local interests in the 1970s, UAC employed well over 70,000 people in the 1970s and contributed at times one-third of Unilever's total profits.[40] Elsewhere in Africa, information asymmetries provided a continuing role for other European multinational trading companies, such as CFAO and Lonrho.

During the postwar decades, therefore, multinational investment became progressively marginalised in much of the world. In many countries the natural resource and service sectors were closed to foreign firms. North America and Western Europe, and manufacturing as a sector, remained open, but even the Japanese economy was largely closed to foreign firms as Japanese governments until the 1970s blocked most wholly–owned FDI in favour of licensing or joint ventures.[41] For the first two decades after the end of the war, new FDI was largely a matter of US firms investing in Canada and Western Europe, and even here the flow was very uneven in geographical terms. In 1962 the UK alone accounted for over 50 per cent of the stock of US manufacturing FDI in Europe.

In summary, international business shrank in relative importance in the world economy from the late 1920s, and declined in its 'global' nature. In the 1930s many firms preferred cartels to FDI. Cartels became the major form of international business in a range of industries. During the 1950 and 1960s the growth of world FDI resumed, but it was geographically and sectorally constrained. The firms of many developed countries preferred exporting to foreign production. Large areas of the world restricted the operations of foreign firms. By 1980 the stock of world FDI only amounted to 4.8 per cent or world output, or significantly less than in 1914[42].

MNEs and the Making of a New Global Economy

During the decades after the end of the Second World War MNEs began to build a new global economy, a somewhat drawn-out process which only came to fruition only during the 1980s and the 1990s.

In this process service sector MNEs were important, whose significance can be overlooked by a focus on FDI data alone. During the postwar decades there was a massive increase in the relative importance of manufacturing FDI, until by 1978 it accounted for just over 50 percent of total FDI stock, with services just under a quarter. However, these figures largely reflected the demise of capital-intensive FDI in transport and utilities in the developing world, while much of the new service sector multinational investment in business and professional services in developed economies either employed non-equity modes such as partnerships, franchising and contracts, or else was not capital-intensive.

In the immediate postwar decades multinational service firms assumed an important role as conduits of US management practices and, more generally, values and lifestyles to the rest of the developed world. Management consultants were especially important with regard to the former. Multinational consultancy had a long pedigree, which can be traced back to the internationalisation of accountancy in the nineteenth century. During the interwar years consultancy firms such as Bedaux, founded in the US by the French immigrant Charles E. Bedaux, expanded internationally. US firms often followed their domestic clients abroad. Bedaux's establishment in interwar Britain and Germany, for example, was heavily dependent on the business of their US client Goodrich. During the postwar decades US consultancies led by McKinsey, Booz Allen & Hamilton and Arthur D. Little often followed their US clients to Europe, and then developed a European client base, although this evolutionary pattern was not universal. McKinsey, for example, invested in Europe in the late 1950s at the invitation of Shell, for which it had carried out an assignment in Venezuela. For a time British consultancies such as Urwick, Orr were also important internationally, largely servicing the countries of the British Commonwealth.[43]

The importance of management consultancies lay in their diffusion of American (and from the 1980s Japanese) management practices and structures. During the 1960s McKinsey in particular played a major role in the spread of the M-form structure in

Britain, France and Germany, even if for institutional and cultural reasons there was rarely a complete transfer of US management practices to Europe or elsewhere.[44] Large European firms such repeated and extensive use of McKinsey and other consultancies, often calling them in when internal disagreements among senior managers blocked change.

Advertising agencies had also begun their internationalisation in the interwar years and even earlier in some cases. During the 1920s J. Walter Thompson had an agreement with General Motors that it would open an office in every country where the US car firm had an assembly operation or distribution, and this drove its expansion in Europe, and elsewhere. After 1945 the US agencies built on a series of innovations in market research and advertising techniques to dominate the world advertising industry. By the 1980s they were operating in virtually every non-communist country in the world.[45] The advertising agencies, like the management consultancies, 'globalised' aspects of US management practice, but they were also important in facilitating the spread of US lifestyle. In the UK, US breakfast cereal companies such as Kellogg spent large sums on market research and advertising services provided by J. Walter Thompson to decimate traditional British, and later other, breakfast habits in favour of US-style cereal consumption.[46]

Among the other service industries in which MNEs played a substantial role in diffusing 'global' lifestyles were hotels and fast food retailers. The hotel industry which had been primarily national before the Second World War, internationalised subsequently, as US hotel groups such as Holiday Inn, Hilton and Inter-Continental expanded abroad, normally employing management contracts and franchising. The fast food industry, whose multinational growth dated from the 1960s, also employed the same modes. The

British-owned J. Lyons acquired the international franchise of the 'Wimpy Bar' of the United States, and through the 1960s licenced hamburger chains in Europe, Asia and Africa. However, it was McDonald's which led the globalisation of food tastes. Although the firm only opened its first foreign restaurant in Canada in 1967, over the following two decades it conquered widely different culinary traditions worldwide and by 1990 there were more than 2,500 McDonald's restaurants in fifty foreign countries.[47]

The hotels and food industries were part of a wider process of the creation of 'global' brands by MNEs. Branding strategies were the product of the nineteenth century - or in fact much earlier[48] - and by the interwar years some brands such as Coca Cola were well-established both in their home markets and abroad.[49] However, most brands in industries as diverse as detergents and alcoholic beverages remained primarily 'national' until the 1950s and 1960s, when firms began to identify 'global' brands to be promoted worldwide. In alcoholic beverages, although many leading brands originated in the eighteenth and nineteenth centuries, it was from the 1960s that a process of globalisation began when some brands began to be identified or promoted as 'global'. An example was the Cuban-based firm of Bacardi, which had sold its rum almost entirely in the United States before the owning family was expelled from Cuba by Castro in 1960. Thereafter the Bacardi brand was spread worldwide, much assisted by the discovery that Coca Cola made an excellent mixer.[50] However, the 'globalisation' of the brands in many countries was to prove a very slow process. In many parts of the food industry, for example, brands, customers and competitors remained primarily local even in the last decade of the century.

As in the creation of the first global economy, multinational banking and trading MNEs played a vital role in building, or rebuilding a global infrastructure from the 1950s.

By the late 1950s, the earlier phase of European overseas banking had left a legacy of thousands of multinational bank branches, mostly located in the developing world. In contrast only seven US banks had any overseas branches, while foreign banks had virtually no business in the United States. The heavily regulated nature of the industry worldwide left no room for new waves of multinational banking, or indeed much innovation at all.

The development of the Eurodollar markets in London from the late 1950s transformed this situation. Initially developed by British overseas and merchant banks anxious to secure dollars, and by Communist governments unwilling to repatriate dollars to the United States, the Eurodollar market grew thanks to the restrictions on interest paid on deposits (Regulation Q) in the United States. The unregulated Eurodollar market was able to capture a rising share of financial intermediation from the regulated domestic banking markets, and such was the momentum of the market that its growth was unaffected by the abolition of Regulation Q and the disappearance of other initial reasons for its growth. The new financial markets, which became increasingly important for the financing of MNE activities, had a number of curious features, especially their physical location and concentration in a small number of financial centres such as London, or Singapore and Hong Kong in Asia, where the primary attraction was not the size of domestic markets, but a combination of regulations and fiscal conditions, and political stability.[51]

The Eurodollar markets transformed multinational banking, which grew exponentially in size, and for the first time attracted US institutions on a large-scale. During the 1960s US banks set up numerous branches in London to participate in the market. By 1985 US banks had over 860 branches abroad, although thereafter their international presence fell away again. While in 1960 foreign operations were of marginal concern to US banks, by the mid-1980s the total assets of their foreign branches amounted to 20 percent of the total assets of all US banks. In turn, European and later Japanese banks invested in the United States, ending that country's isolation from world banking. In the 1960s foreign banks held an insignificant share of the American market, but by the mid-1980s they accounted for around a fifth of the commercial and industrial loan market.[52] Conversely, by the 1980s the once-enormous European overseas banking networks in Latin America, Africa, Asia and Australia had largely disappeared. Indeed the extent to which banking was 'globalised' in the 1980s (and later) is debatable. While the wholesale and Euro markets became truly global, retail banking markets remained local. Only few banks made a serious and sustained attempt to provide global banking services even at the retail level. The most important were Citibank of the US and the Hongkong Bank (now HSBC), the British overseas bank domiciled in Hong Kong until 1993, which built on its core Asian/Pacific business by acquiring banks in the Middle East, the United States, Britain and (in the 1990s) Latin America.

Trading companies also resumed a new importance in the postwar decades. During the postwar decades the extensive business of the European trading companies in the developing world encountered considerable difficulties as government intervention in commodity trading, import and exchange controls, and pressure for local ownership of resources decimated many aspects of their traditional business. However in regions and countries where political conditions permitted, these trading firms continued to evolve, sometimes investing in manufacture in their host economies or in related services. From the base of the British colony of Hong Kong, the British trading companies, such as John Swire and Jardine Matheson, survived the loss of all their extensive assets in China in 1949, and built new diversified trading and distribution businesses in Asia-Pacific and elsewhere. Swires established a new airline in the late 1940s (Cathay Pacific), invested in Coca Cola bottling in Hong Kong and the United States in the 1960s and 1970s to become one of the world's largest bottlers, and used disused land from its former dockyards and sugar refinery in Hong Kong to develop a vast real estate business in Asia and the United States.[53]

However, although such European trading companies developed as regional multinational groups, it was other types of multinational trading firm which built and developed global trading networks. These firms benefited from persistent information asymmetries, at least until the spread of the internet during the 1990s changed the rules of the game, and in some cases from the opportunities to trade with Communist countries. Prominent among these firms were Japan's general trading companies, or *sogo shosha*, which survived their dismantling by the Allied occupation after the Second World War to become the central players in both Japan's foreign trade and (until the 1970s) FDI. They were central components of Japan's horizontal business groups, and had a special role in financing and handling the foreign trade of Japanese SMEs. The *sogo shosha* accounted for over 80 percent of Japan's total imports and exports during the 1960s, and were counted as among the world's largest MNEs in terms of turnover.[54] In a regional context, the *sogo shosha* were important in the postwar decades through their alliances with overseas Chinese firms, enabling their local production and trading networks to be refocused towards Japan and the United States.

The post-war decades also saw the rapid international growth of such commodity trading firms as Cargill, the US grain trader and largest private company in the United States, which took advantage of the increased government intervention in the marketing of commodities and the nationalisation of mines and plantations.[55] By the 1970s a handful of commodity traders including Cargill, Continental, Louis Dreyfus, Bunge & Born and André accounted for over 90 percent of the European and US wheat exports. Swiss-based trading firms, such as André and Glencore, built enormous global commodity and other trading links. Glencore by the 1990s had an annual turnover of more than $40 billion, and traded in everything from base metals to soft commodities.[56]

The post-war growth in US multinational manufacturing MNEs in Europe provided the stimulus for the pioneering studies of multinationals by Dunning, Hymer and Vernon.[57]During the 1950s the international cartels of the interwar years were dismantled[58], while US manufacturing MNEs invested on a large scale in Western Europe, initially in response to the 'dollar shortage', which encouraged US firms to establish factories to supply customers in countries that lacked the dollars to buy American products.[59] In most industries the US firms held large 'ownership advantages' in terms of management and technology over their European counterparts, their affiliates often having much higher productivity rather than their indigenous counterparts.

Certainly this was the case in the largest European host for US manufacturing FDI, the United Kingdom. Between 1950 and 1962 at least 350 new US-owned manufacturing affiliates were set up in Britain. By the mid-1960s US owned firms employed nearly 10 percent of the British manufacturing workforce, and held large market shares in many products involving either high technological content or advanced marketing skills. By this period US firms accounted for between 30 and 50 percent of the British market for computers, rubber tyres, soaps and detergents, instant coffee, refrigerators and washing machines, among many other products. Throughout the 1950s and 1960s the labour productivity of US affiliates in Britain was estimated to be almost 33 percent higher than that of all British manufacturing industry.[60]

Although the fast growth of US manufacturing affiliates was striking, there was little 'global' about multinational manufacturing in this era. On the one hand, it was little more than the story of US firms shifting some of their production abroad, mainly to a few Western European countries. On the other hand, overseas affiliates remained very 'national'.There was little rationalised production and intra-firm trade was very low. However from the 1960s new strategies for the organisation of multinational manufacturing began to appear involving both geographical and functional integration. By the postwar decades the considerable autonomy given to national subsidiaries had given rise to extensive duplication of products and functions such as FDI. The worldwide lowering of trade barriers under GATT, cost reductions in transportation, a convergence of consumer demand in some developed countries and sectors, and the formation of trading blocs beginning with the European Economic Community (later the EU) in 1957, provided new opportunities for the integration of formerly isolated subsidiaries.

In practice, the process of building integrated production systems was slow. US MNEs took the lead in the integration of production. IBM and Ford among the pioneers. During the 1950s IBM's foreign subsidiaries were hardly co-ordinated at all, but this changed radically with the launch of System 360 in 1964, a broad line of compatible mainframe computers which were designed to be manufactured and sold worldwide.

While IBM in the US took overall responsibility for development engineering and manufacturing, responsibility for the development of specific processes and peripherals was assigned to different laboratories in Europe and the United States. By the end of the 1960s the firm had two regional production networks in North America and Europe. From the mid-1960s Ford also began to integrate its manufacturing on a regional basis. The process began with the integration of production in the United States and Canada. Subsequently Ford merged its European interests into Ford of Europe, in 1967, and began to build a regionally integrated manufacturing system.[61] However it was not until the 1980s that Ford attempted to integrate design and production worldwide.

European-owned companies lagged far behind their US counterparts in responding to regional integration. The contrasting examples of Unilever and Procter and Gamble have acquired almost a textbook status. .[62] Unilever had an extremely decentralised organisation in the postwar decades. This reflected in part that national subsidiaries in Europe had become very autonomous as a result of political developments in the 1930s and the Second World War. It was also the result of the fact that Unilever did not grow as an organic company but rather through acquisitions and mergers. An organisational culture based on consensus also meant that senior management in the firm's twin headquarters in London and Rotterdam sought to avoid forcing their wills on local managers. The result was that this leading European-based MNE was remarkably decentralised. Within Europe, Unilever's national managers had the greatest possible freedom, national products and brand names varied enormously, and there was no integration of production between countries. Both its trading company subsidiary, the United Africa Company, and its US business, functioned as almost autonomous operations.The latter might have reflected a more general trend, for although many European manufacturing firms had operations in the United States in the post-war decades, they were often left largely alone, both because of anti trust considerations, and because of a belief in the uniqueness of the American market and the superiority of its indigenous management.

During the 1950s the formation of the EU and the entry of US MNEs led by Procter & Gamble and Colgate into Europe severely challenged Unilever's position. Procter & Gamble had relatively few international operations before 1945, and consequently began its internationalisation process at a time of falling trade barriers. The firm's management also had a strong belief in the Procter & Gamble's 'way of doing things', and sought to structure its overseas operations as replicas of the US business.[63] Procter & Gamble moved quickly to integrate its European plants, and in 1963 established a European Technical Centre to service the common R & D requirements of its European subsidiaries.

Although Unilever lost market share in detergents rapidly following the assault by US MNEs, its attempts to integrate production and achieve more cohesive organisation were very prolonged. In 1952 it appointed two 'co-ordinators' - a term used to emphasis that their role was advisory - for non-margarine foods and personal products (such as toothpaste). Their function was to encourage the transfer of products and brands between countries, and to identify international brands. But it was only in 1966, after much internal dissension, that 'co-ordinators' were given executive power and profit responsibility in a handful of Western European countries, and only in the 1970s - after a major investigation by McKinsey - that conflicting jurisdictions between co-ordinators, national managers and others began to be sorted out. Even in the 1980s Unilever lacked a coherent 'European' strategy, while it was only during that decade that the US business was integrated in managerial terms with the rest of the firm.[64]

During the 1970s it seemed that the postwar growth in FDI might have peaked. US manufacturing firms in Europe did not grow much faster than the European economy as a whole, while on some measures world trade grew faster than world FDI.[65] During the following decade, however, FDI flows grew rapidly and faster than world trade. There were major shifts in the sources and destination of multinational investment from the 1970s.Regarding the former, the major Continental European countries and Japan resumed outward investment, partly as their competitive advantages had grown, and partly in response to the new protectionism of the period.As a result, the US share of total outward FDI stock fell from 50 per cent in 1967 to 26 per cent in 1990.

The resumption of Japanese FDI from the early 1970s was particularly striking as Japanese automobile and electronics firms responded to the relaxation of their government's controls on outward FDI, rising domestic labor costs, the revaluation of the Yen after 1972, and the growth of US and later European protectionism to exploit their competitive advantages by production abroad rather than exporting. The upshot was a susbtantial flow of Japanese manufacturing investment into first the United States, and then Europe.Japanese firms built virtually a new automobile industry in the United States during the 1980s. [66] There were similar large-scale Japanese investments in parts of Western Europe in the 1980s: In some countries industries which had almost disappeared under local ownership such as automobiles and electronics were re-established under Japanese ownership.

The other major change from the 1970s was the growth of the United States as a host economy. In the post-war period, the United States dominated world outward FDI but in the late 1960s it held less than 10 per cent of world inward FDI stock. Thereafter the United States rose dramatically as a host economy. Between 1975 and 1980 the US accounted for around a quarter of all world inflows, and during the 1980s for over 40 per cent. By 1990 inward FDI stock in the US was as large as US outward stock abroad.[67] The growth of the United States as a host economy was striking, although relatively foreign MNEs remained less important in the United States than other large host economies. At the end of the 1980s, for example, the foreign affiliate share of employment in the US was less than 4 per cent, while in major European host economies the equivalent proportion was often already over 20 per cent.[68]

During the 1980s there was an almost worldwide shift towards more open policies to MNEs. This policy shift had multiple causes, including the spread of market-oriented policies, the failure of state planning and closed trading models, the undermining of exchange controls by the Euromarkets, and the fallout from the world debt crisis. The consequences were radical, and included the re-opening of almost all developing and former (or still) Communist countries to MNEs. In the developed market economies, there was a noteworthy liberalisation of restrictions on service sector FDI. The EU's 'Single Market' programme launched in the mid-1980s was specifically targeted at opening European markets to service sector FDI. By the 1990s the service sector accounted for over 50 per cent of the stock of world FDI.

Curiously the geographical distribution of world FDI was comparatively unaffected by this changed policy environment. It remained very skewed by the end of that decade. In 1990 the world's largest host economies were the United States (23 per cent of total world inward FDI stock), the United Kingdom (13 per cent), and Germany and Canada (7 per cent each). Canada had twice as much FDI as the entire continent of Africa, and six times more than Japan, where government barriers to inward FDI were dismantled from the 1970s but few foreign firms ventured. There was about as much inward FDI in the United Kingdom in that year as in Latin America, Russia, India and China combined. The welfare implications for most developing economies were considerable, as they became ever-more excluded from the flows of innovation and technology which by this period were largely concentrated in a few hundred large MNEs, which were responsible for three quarters of industrial R& D, and more than two thirds of patents spread in foreign markets.[69]

Although by 1990 the entire developing world only accounted for less than 20 per cent of world FDI stock, a few developing economies had remained or become substantial hosts. Singapore's extremely fast growth from the mid-1960s was almost entirely driven by foreign MNEs and in 1990 its share of world FDI stock- 2 per cent- was about the same as all of Africa and three times that of Japan. Among the other major Asian hosts were Indonesia, Malaysia and Thailand, in which foreign MNEs invested heavily especially in electronics. Most remarkable of all was China's re-emergence as a host economy after a major policy change in 1979. During the 1980s overseas Chinese firms in particular invested heavily in China, whose share of world FDI stock rose from zero in 1980 to nearly 1 per cent in 1990, at least according to official estimates .In Latin America, multinational investment was heavily concentrated in a few countries led by Brazil and Mexico which, although they had driven out foreign firms from resources and utilities in the post war period, had sought to attract them in manufacturing industries such as automobiles as part of import substitution strategies .[70]

The world outside the Triad of North America, Western Europe and Japan remained singularly unimportant as a source or multinational investment. However from the 1970s a number of firms from Asian NICs began to invest abroad, often first in neighbouring countries, and later in the United States and Europe. Taiwan and Korea were especially important. Between 1986 and 1990 nearly 2 per cent of world outward FDI flows originated from Taiwan.[71] The nature of the competences and the sustainability of such 'Third World' MNEs has been under discussion since their discovery by researchers.[72] The Asian financial crisis in 1997 raised new issues about this, especially in regard to overseas Chinese multinational conglomerates such as Thailand's CP group, whose organisational structure and business culture were not well-suited to building sustained competitive advantages, at least in the manufacturing sector.[73]

The nature of international business changed during the last decades of the century. During the late nineteenth century, as the world economy globalised, firms had often invested abroad using 'network' structures of organisation, such as the clusters of 'free-standing' firms identified by Mira Wilkins, or the diversified 'business groups' found around European trading companies.[74] However as the pace of internationalisation slowed the boundaries of firms became more solid. The decades between the 1950s and the 1970s became the era of the 'classic' MNE when large integrated corporations appeared as the dominant organisation form in international business. The large industrial enterprises of the United States were at the leading edge of all the new technologies of this period, and in much of Europe – although not Japan - large integrated corporations replaced earlier types of firm.[75] These firms conducted virtually all value-added activities within themselves. In the 1950s and 1960s Unilever, for example, not only manufactured in numerous countries detergents, margarine, soup, ice cream, toothpaste, shampoos, and chemicals, but also owned the plantations on which palm oil was produced, the ships that conveyed it to its factories, retail shops, fishing fleets to catch the fish sold in its shops, and extensive packaging, paper and transport businesses service all its other businesses.

As the pace of internationalisation intensified, the boundaries of MNEs began to change. They abandoned the vertical and horizontal diversification seen in the Unilever example above, and instead focused on 'core' products, which were in turn manufactured outside the firm or in alliance with others. A key development was the growth of outsourcing, beginning with the use of offshore assembly plants by firms in the semiconductors industry.[76] This was the start of a trend which, by the end of the 1990s seemed to be transforming automobile assemblers such as Ford into multinational service firms which did little manufacturing themselves. Integrated production systems increasingly meant labels such as 'Made in America' became steadily meaningless as products were assembled from parts produced in numerous countries. By the 1980s large US MNEs such as IBM, which had once sought desperately to control their proprietary technology and brands, and given rise to much of the theory of the multinational enterprise in the process, were developing and sharing their technologies with other firms through strategic alliances. The same trend towards, in Dunning's terminology, 'alliance capitalism' was found in services such as airlines.

As a result the MNEs at the end of the 1980s looked different from forty years previously. Some authors considered they had become stateless 'global webs'.[77] The reality was less clear-cut. The 'webs' were fragile, as strategic alliances were very transient phenomenon in most cases. Moreover the national origins and ownership of large MNEs remained extremely visible, despite all the hype surrounding 'globalisation'.[78] Boards of directors of the largest MNEs continued to be overwhelmingly of home country origins, even if the globalisation of capital markets led to the ownership of the equity of corporations being more widely dispersed The globalisation of key functions such as R& D was also limited. Both Japanese and US MNEs continued to conduct the great majority of their R & D at home, though the MNEs of a number of small European countries such as the Netherlands and Switzerland as well as the United Kingdom had decentralised their innovation to a much greater degree by this date. In general, firms operating in industries with higher technological opportunities, such as computers, automobiles and aeronautics, continued to conduct most of their R& D at home.

Concluding Remarks

This paper has examined the development of international business over time. In the decades before 1930 MNEs had reached a considerable importance in the world economy, but subsequently international business was buffeted by the political and economic consequences of the Great Depression, the Second World War, the spread of Communism and the demise of colonial empires, and by a sharp decline in receptivity to foreign firms. MNEs proved resilient, even in the 1930s and 1940s, but their importance in the world economy shrank as, first, cartels were used as alternatives to FDI, and then from the 1950s many firms preferred to export rather than own assets abroad, and as MNEs were excluded from operating in many countries and sectors. During the 1950s and 1960s the world of MNEs was, at least if the focus is on the size of FDI, largely a matters of firms from one English-speaking economy investing in other English-speaking economies.

From the 1950s a new global economy began to be constructed. MNE service firms began the international dissemination of management practices, cultural values and lifestyles, and the building of a new trading and financial infrastructure. Multinational banks and trading companies moved money, commodities, and information around the world on an unprecedented scale. By the 1990s multinational service firms were the largest and most dynamic components of the new global economy, although there was a distinct convergence between services and manufacturing by that date. Multinational manufacturers from the 1960s began to take advantage of new technological opportunities and regional integration to re-organise production systems, first integrating regionally and subsequently on a worldwide basis. From the 1970s Japanese and Continental European firms again resumed FDI on a substantial scale, while the United States grew as the world's largest host economy. Under the pressure of fast internationalisation, the boundaries of manufacturing and service firms became blurred as they outsourced production and sought competitive advantage through alliances with other firms. In the 1990s there was a rapid growth of multinational business, but during the early years of the twenty first century its relentless expansion halted in the wake of economic uncertainities and the aftermath of the September 11 2001 terrorist attack.

By 2002 'globalisation' still remained more of a concept than a reality, and it is not evident that the level of international integration was greater than in the early twentieth century. 'Global' firms remained in practice national in many fundamental respects, while the huge flows of investment and-more importantly-knowledge and information-within

MNEs largely by-passed the majority of the world's population in Latin America, Africa, Asia and eastern Europe.

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* This is a draft discussion paper, parts of which were presented in my address to the Aveiro conference in November 2002. Its contents must not be cited without the written permission of the author. Contact email: gjones@hbs.edu

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