

Jan 15, 17

## **The MNC: Political or Economic actor?**

An overview of the evolving academic discussion of MNCs that assesses its transformation from a literature dominated by state-centric approaches to the exclusion of MNCs as merely “economic” actors, to a much wider, diverse, and increasingly cross-disciplinary discourse that regards MNCs as crucial subjects and agents of global governance.

### **Readings**

🔗 John Stopford (1999) “Multinational Corporations,” *Foreign Policy*, 113 ([Stopford PDF](#))

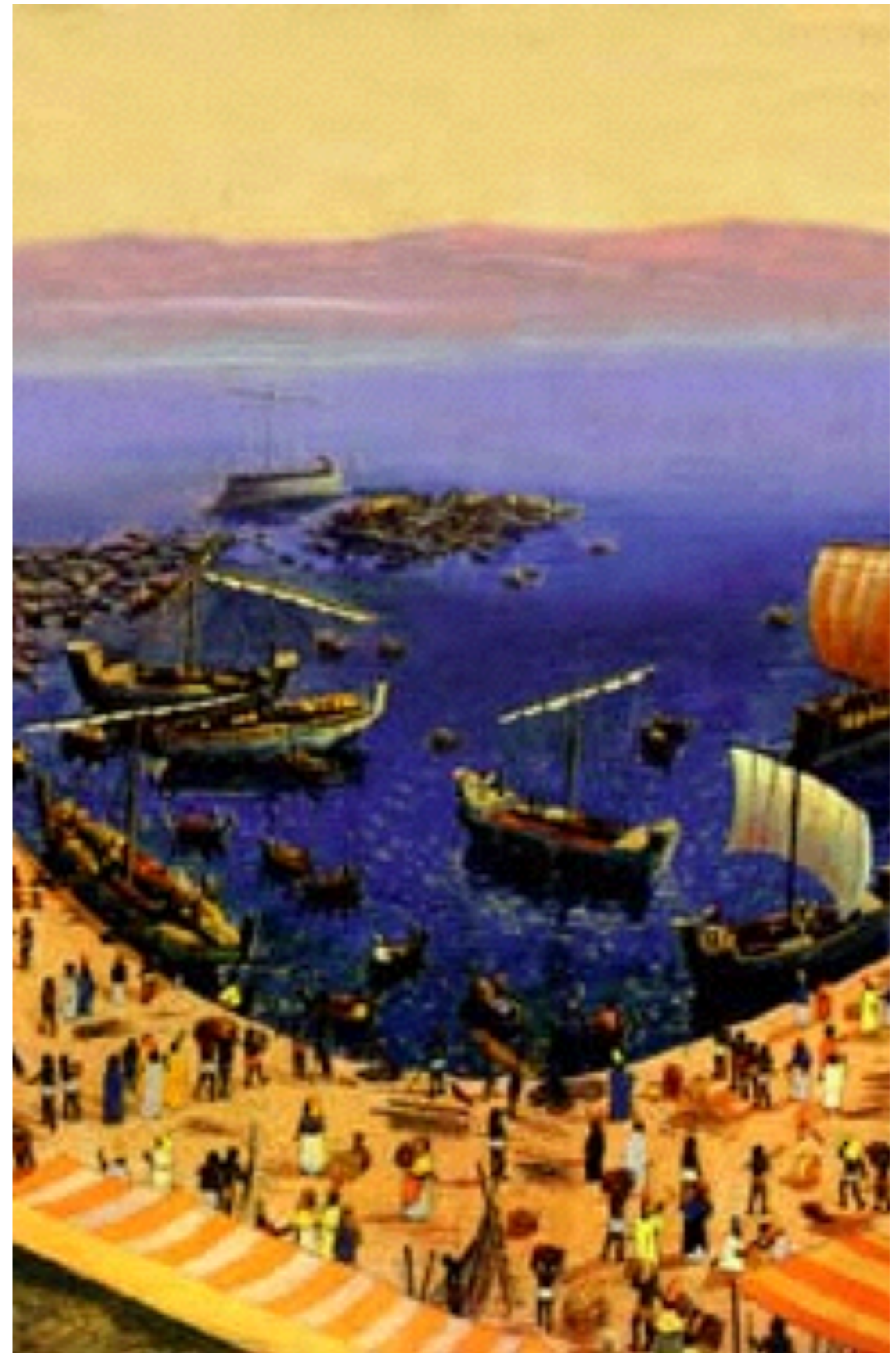
🔗 Susan Strange (1991) “Big Business and the State,” *Millennium*, 20, 2 (1991) ([Strange PDF](#))

🔗 Raymond Vernon (1991) “Sovereignty at Bay: Twenty Years After,” *Millennium*, 20, 2

🔗 Peter Evans (1997) “The Eclipse of the State? Reflections on Stateness in the Era of Globalization,” *World Politics*, 50 ([Evans PDF](#))

International commercial activities go  
back thousands of years  
The bulk of this activity took the form of  
trade  
Trade remains a core defining activity of  
modern states & closely related to their  
economic wellbeing  
But trade is no longer the most  
important integrating force in global  
commerce

**Phoenician Traders circa 1550 BC to  
300 BC**



# Trade vs. investment

- modern commerce has come to be dominated by investment
- investment of course is not new
- but until the 20th century the vast bulk of investment of the *portfolio* variety
- corporations not new either
- but with MNCs comes a new type of corporation and a new type of investment

# Foreign direct investment

- the emergence, growth, & spread of MNCs (private actors that **own** and **operate** economic units in two or more countries) has transformed investment & eclipsed trade
- trade remains hugely important but, based on its estimated value, FDI a far greater globalizing force
- estimates also suggest 30 to 50% of trade is intra-firm transfers between units of MNCs
- FDI: an investment made by a firm in one country into business interests located in another country; the investment establishes direct *ownership of assets* and *control of foreign business operations*





Accountability

# No souls to damn; no asses to kick

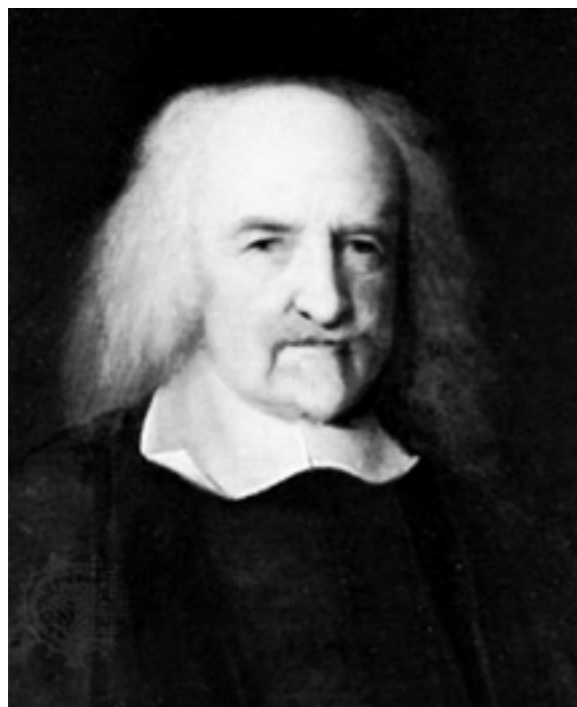
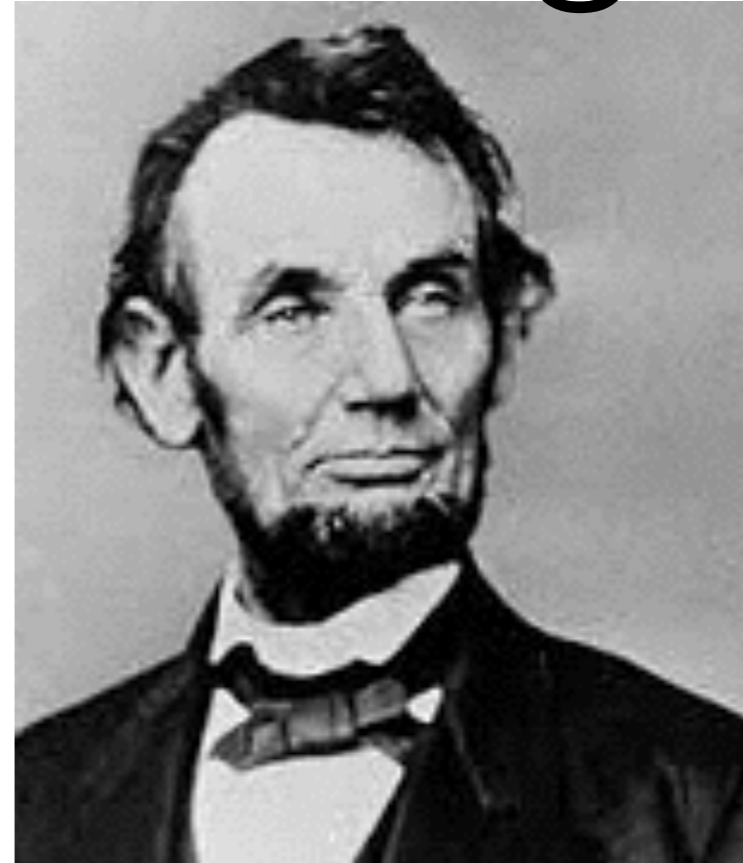
- corporations first emerge in the **mercantilist** era of colonial expansion
- granting of charters allowed private resources to be used in pursuit of state objectives while limiting liabilities of individual merchants
- Britain 1862, the Companies act: reduces cost of forming a company; removes need for legislative approval; limits liability of shareholders
- MNCs emerge into a corporate friendly world
- Santa Clara County vs. Southern Pacific Railroad 1886 (milestone decision)
- paves way to legal personhood of MNCs
- addition of MNC mobility further enhances MNC freedom



# some saw this coming

“I see in the near future a crisis approaching that unnerves me and causes me to tremble for the safety of my country. ... corporations have been enthroned and an era of corruption in high places will follow, and the money power of the country will endeavor to prolong its reign by working upon the prejudices of the people until all wealth is aggregated in a few hands and the Republic is destroyed”

(U.S. President Abraham Lincoln, Nov. 21, 1864 [letter to Col. William F. Elkins] Ref: “The Lincoln Encyclopedia”, Archer H. Shaw (Macmillan, 1950, NY)



“Corporations are many lesser commonwealths in the bowels of a greater, like worms in the entrails of a natural man,” Thomas Hobbes

**Leviathan, Ch. 29**

# Why did it take so long for MNCs to generate a backlash?

- MNCs emerge in early 20th century
- confined mostly to the Americas in 1920s
- MNC expansion follows established patterns of colonial influence
- first major wave of expansion in the 1940s
- early attitudes of great powers: MNCs as apolitical





# Seen clearly in postwar settlement

- The Mount Washington Hotel, Bretton Woods, New Hampshire
- conference of “allied” states in July 1944 ushered in the “BW system”

# An end to economic nationalism

- two world wars seemed to affirm the wisdom of what comes to be known as *hegemonic stability theory*
- mercantilist policies were ruinous; open markets now a core goal
- would be achieved via creation of an IBRD & an IMF
- would also expand to include an ad hoc GATT (later the WTO 1994)
- notably absent was an investment agreement, despite increasing role of MNCs
- why? MNCs seen as part of the solution not the problem

# The OECD consensus

Established in 1948 as the Organization for European Economic Cooperation (OEEC) to run the US-financed Marshall Plan

Canada and the US signed on in 1960 and helped transform the institution into the Organization for Economic Cooperation and Development (OECD)

Officially born on 30 September 1961, when the Convention entered into force

Of its 34 members, only three (Mexico 1994, Korea 1996, and Chile 2010) originate in the developing world



the Château de la Muette, Paris

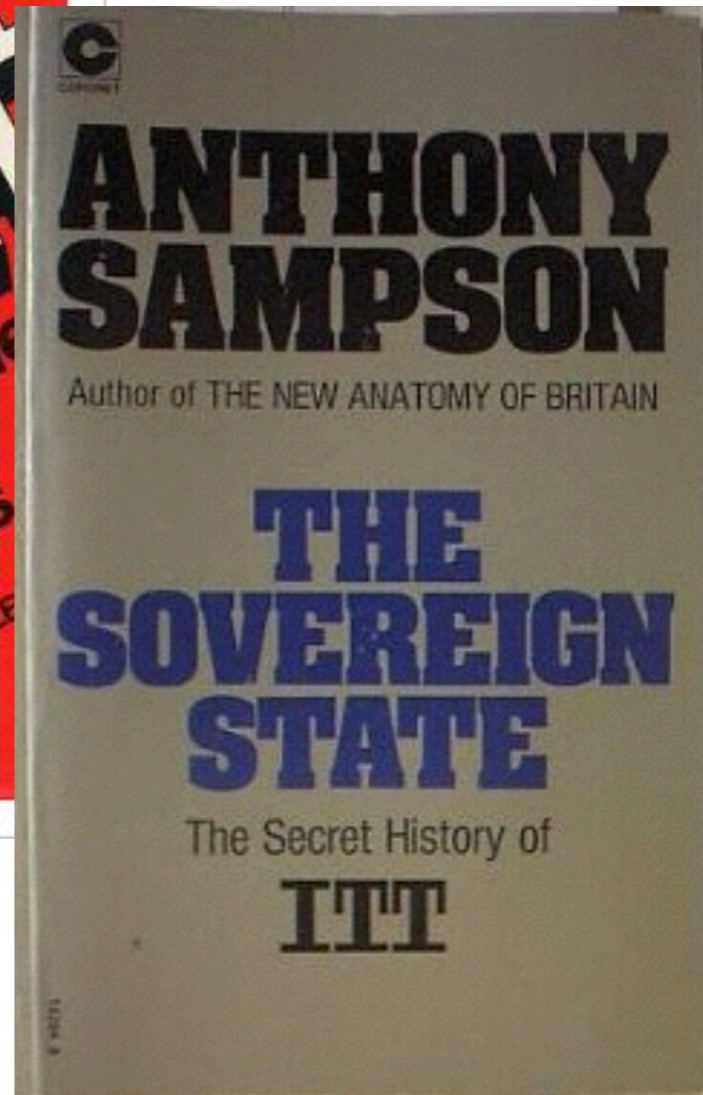
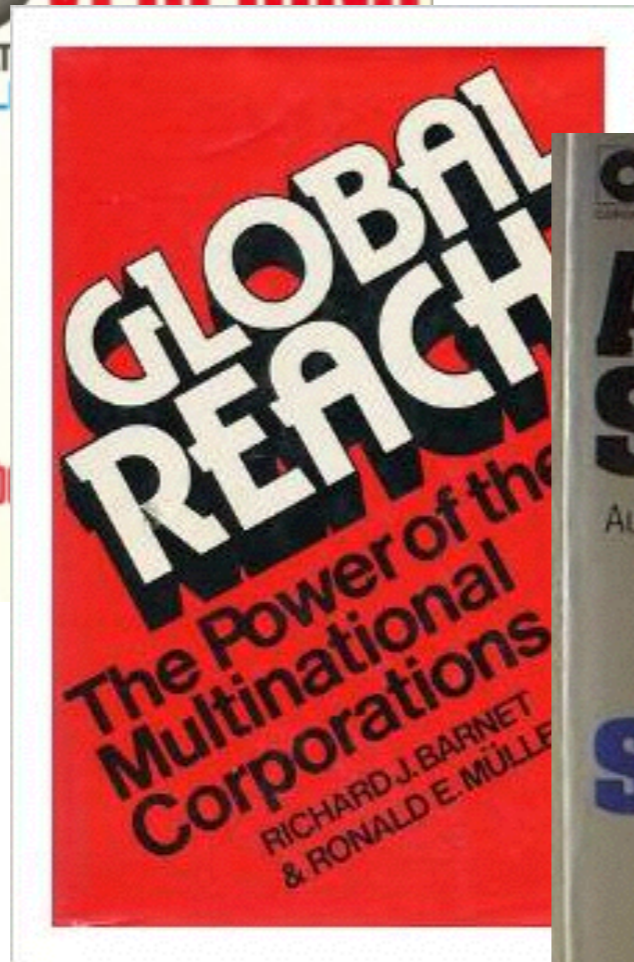
- vast majority of FDI transfers occur among and between OECD countries
- but MNC activity has tended to be most controversial (and most overtly political) in the developing world
- creates two very different views: MNCs as engines of development; MNCs as vehicles of exploitation
- by early 1970s the MNC literature (mainstream) begins to capture the overtly political side of these actors

**SOVEREIGN  
AT BAY**

*The Multinational Spirit  
of U.S. Enterprise*

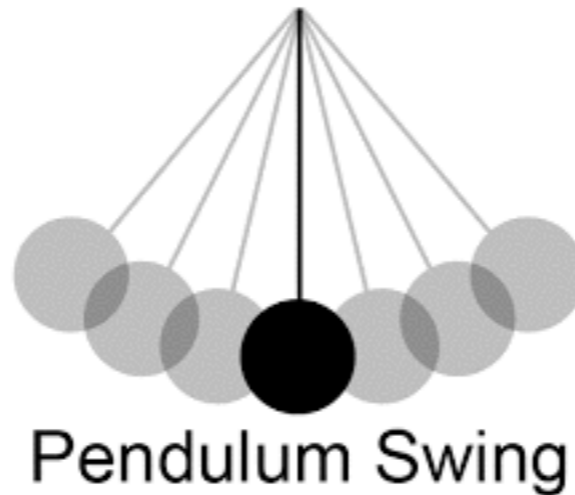
BY  
RAYMOND VERNON

BASIC BOOKS, INC.  
Publishers  
NEW YORK / LONDON



# The state of the state

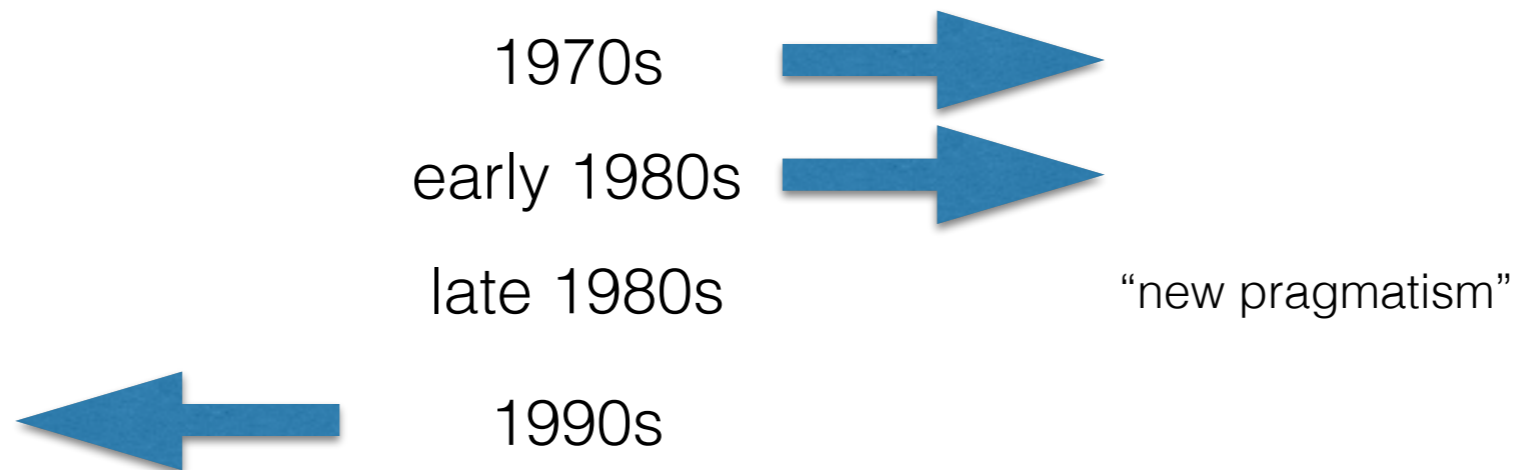
1969  
Kindelberger:  
death of the state  
("Mark Twain syndrome")



1984  
Theda Skocpol  
*Bringing the State Back in*

- low stateness
- territory a liability
  - MNCs greatly empowered

- high stateness
- territory an asset
  - MNCs objects of state management



Today, the untrammelled hegemony of Anglo-American ideological premises is one of the most salient forces shaping the specific character of the current global economy, including the extent to which globalization is viewed as entailing the eclipse of the state.

Peter Evans (1997) "The Eclipse of the State? Reflections on Stateness in the Era of Globalization," *World Politics*

# Organizational Varieties of MNCs



# 1. Vertically integrated

- backward (measure of control over inputs from subsidiaries)
- forward (control of distribution centres & retailers where product sold)
- balanced (control of all aspects from raw materials to product delivery)
- examples: IBM, GM, Exxon/Mobil, Nestlé, Fiat, Toyota, Mitsui, Shell, BP, ConocoPhillips

## 2. Horizontally Integrated

- MNCs with production establishments located in different countries to produce the same or similar products
- can create economies of scale and scope
- can lead to monopoly pricing

### 3. Conglomerate

- MNCs with retention of different product lines in different industries
- Goal = diversification of risks • Aka “diversified” companies
- in Japan called Zaibatsu or Keiretsu (e.g. Mitsubishi: runs a bank, make cars, cameras, elevators...)
- Lonhro
- Unilever: beverages, soap, personal care items, ice cream.....

# Strategic Alliances

- two or more parties make formal arrangement to pursue agreed goals or important need while staying independent
- Increasingly common in high cost/risk sectors

# MNCs and the 20th Century

