Multinationals and the Restructuring of the World Economy

THE GEOGRAPHY OF MULTINATIONALS, VOLUME 2

Edited by Michael Taylor and Nigel Thrift

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PREFACE

'Something fundamental happened.' This is the judgement of the International Labour Organisation (1984, p. 36) on the changes in the world economy that took place in the 1970s and into the 1980s. And it is a judgement that it is difficult to dispute. The restructuring of the world economy that was both the cause and effect of these changes touched every national economy in some degree, all the way from the great economic Leviathan, the United States, down to the lowliest developing country (Thrift, 1985). One of the chief vehicles of this restructuring of both national economies and the international economy that links them all together was the multinational corporation (MNC). This volume is an attempt to chart some of the ways in which multinational corporations contributed to the restructuring of the world economy, paying particular attention to the spatial consequences of, and responses to, their operations at a number of scales. However, in contrast to a previous volume (Taylor and Thrift, 1982), which explored the spatial consequences and responses in a very general way, this volume is more focused. It takes as its theme the *differential spatial outcomes of the restructuring of different types of multinational corporation.*

The justification for this choice of theme comes from two different and quite distinct sources. First, in economics the study of the multinational corporation has been through a period of theoretical turmoil, based in part on the rediscovery of Coase's (1937) concept of internalisation, and is now entering a period of elaboration and diversification of the new theories that have resulted (see for example Dunning, 1981; Rugman, 1982; Casson, 1983; Caves, 1983). Second, industrial geography has also been through a period of theoretical retooling, based on the integration of the geography of enterprise with quasi-Marxist perspectives, and is now entering a similar period of elaboration and diversification (see Taylor and Thrift, 1983). The challenge is to link these two areas of work, for they are, of course, potentially complementary. Thus, the new theory of multinational enterprise still lacks an integrated location theory (see Buckley, 1983, p.49), while industrial geography still lacks much appreciation of the way in which a particular internal organisation of a multinational corporation, for example, conditions its locational behaviour (see Taylor and Thrift, 1983).

As an outcome of the decision to focus this volume on the different spatial consequences of, and responses to, the restructuring of particular, different types of multinational corporation we have adopted a fourfold demarcation of the chapters. This demarcation corresponds to the *chief* characteristics of the multinationals being studied in each chapter, namely size, nationality, industrial sector and impact. In addition, the volume includes an envoi on the geography of the multinational corporation by McNee, the founder of the geography of enterprise. As with any demarcation, ours is open to dispute; for example, a number of chapters address more than one characteristic. What is not open to dispute is the increasing importance of understanding the locational behaviour of multinational corporations in a period in which they enjoy unprecedented economic dominance over the international economy and many national economies.

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1 INTRODUCTION: NEW THEORIES OF MULTINATIONAL CORPORATIONS

Michael Taylor and Nigel Thrift

Introduction

The last 15 years have seen fundamental changes in the *stock* of multinational corporations as a result of the rigours of a worldwide recession and the consequent bout of corporate restructuring (Thrift, 1985a). These changes constitute a major challenge to researchers striving to understand the workings of national, regional and urban economies around the world, not least because these economies, almost without exception, are becoming more open to 'international pressures' of which the plants and offices of multinational corporations are the most important concrete manifestation. Six changes — all interrelated — are of particular importance.

First, multinational corporations have grown in number. There are no exact figures but certainly there are now many more multinationals than formerly. Many of the new multinationals are the so-called 'small multinationals' — smaller firms which have responded more rapidly to foreign production opportunities than might once have been the case (Newbould, Buckley and Thirwell, 1978).

Second, the size of multinational corporations has increased substantially. Many of the largest multinationals are now much larger, at least in terms of assets and sales, than they were 15 years ago.[1] Some of the largest multinational corporations have gone 'global' (Taylor and Thrift, 1982; Hout, Porter and Rudden, 1982), evolving integrated production and marketing strategies to enhance their share of profits. In the process they have taken on new organisational forms. The process of going global is now well advanced. Already by 1980, 32 per cent of the 180 multinational corporations covered in the Harvard Multinational Enterprise Project had switched to global production structures (Davidson and Haspeslagh, 1982).

Third, and in line with the changes in the number and size of

Table 1.1: The Average Foreign Content of the World's 350 Largest Industrial Corporations (in millions of US dollars and per cent)

Item and Year	Total ($)	Foreign ($)	Foreign Share (per cent)
Sales			
1971	1,769	527	30
1980	7,084	2,822	40
Net assets			
1971	956	300	31
1980	2,417	803	33
Net earnings			
1971	83	41	49
1980	266	140	53
Employment			
1971	61,318	23,958	39
1980	68,669	31,914	46

Source: United Nations Centre on Transnational Corporations (1983), p. 48.

Table 1.2: The Average Foreign Content of 50 of the Largest British-based Industrial Corporations (in millions of £ and per cent)

Item and Year	Total (£ million)		Foreign Share (per cent)
Total sales 1981/82	1,440		
		Overseas production as per cent of sales	44
Overseas production 1981/82	639		
		Exports as per cent of sales	15
Exports 1981/82[a]	209		
Total Employment	43,119		—
Foreign Employment[b]	17,851		41

Notes: a. Only 42 corporations provided export figures.
b. Only 45 corporations provided foreign employment figures.
Source: Labour Research (1983a), pp. 98-9; Labour Research (1983b), pp. 124-5.

multinational corporations, much more of the foreign production of multinational corporations is likely to be abroad, compared with domestic operations. This tendency shows up in data on assets, sales, employment, and so on (Tables 1.1 and 1.2). Even Swiss corporations, already recognised as some of the most international of multinational corporations, have continued to expand overseas, with the consequent stagnation of home-based employment. (Table 1.3).

Fourth, multinational corporations have extended into every kind of industrial sector, partly as a function of increasing multinational corporation diversification,[2] partly as a function of increasing rates of multinational merger and acquisition (see Andreff, 1984) and partly as a function of the growth of nationally-based firms into multinational corporations in industrial sectors not formerly noted for their degree of multinational penetration. For example, firms in producer service industries, such as management consultancy, real estate consultancy and accounting, have all grown into large multinational corporations quite recently.

Fifth, the mix of the nationality of multinational corporations has changed (Table 1.4). United States-based multinational

Table 1.3: Changes in the Location of Employment of Switzerland's Largest Industrial Multinational Corporations, 1970 to 1980

	The Largest 6 Firms		The 7th-15th Largest Firms		The Largest 15 Firms	
	Employment	%	Employment	%	Employment	%
In Switzerland	7,270	10.0	−4,200	−5.0	3,070	1.9
In industrialised countries	74,420	33.4	23,790	38.4	98,210	34.5
In developing countries	33,600	63.7	6,610	89.1	40,210	66.8
Total abroad	108,020	39.2	30,400	43.8	138,420	40.1
Total employment	115,290	33.1	26,200	17.0	141,490	28.2

Source: Borner *et al.* (1984).

Table 1.4: Accumulated Direct Investment Overseas by Country ($ US billions)

	1970	% Share	1978	% Share	Increase 1970-78 %
USA	78	52	168	42	115
UK	20	13	35	9	75
West Germany	7	5	29	7	314
Japan	4	3	27	7	575
Switzerland	8	5	25	6	213
Others	33	22	116	29	252

Source: Kirby (1983), p. 23.

Table 1.5: Indicators of Australian Direct Investment Abroad: Number of Firms and Level of Investment, 1975-76 and 1981-82

	No. of Australian Enterprises Investing Abroad			Foreign Enterprises in which Investment is Held			Level of Investment A $ m		
	1975-76	1981-82	Annual growth rate (%)	1975-76	1981-82	Annual growth rate (%)	1975-76	1981-82	Annual growth rate (%)
USA	51	92	10	57	105	11	88	476	32.5
Canada	15	21	18	15	21	6	23	49	13.4
United Kingdom	99	102	0	116	128	2	99	336	22.6
Other Europe (except UK)	—	—	0	53	52	0	73	166	14.7
Malaysia	45	48	1	49	58	3	24	54	14.5
Singapore	77	91	3	81	108	5	29	140	30.0
Other ASEAN	—	—	0	70	69	0	66	107	8.4
Hong Kong and Japan	—	—	0	130	174	5	43	112	17.3
Papua New Guinea	109	100	−1	140	131	−1	255	480	11.1
New Zealand	283	295	1	334	352	1	205	380	10.8
Other	—	—	0	144	180	4	105	290	18.4
Total	586	604	1	1188	1377	2	1012	2589	16.9

Source: Bureau of Industry Economics (1984), p. 6.

corporations have declined in importance relatively, while multinationals based in Japan, in various 'semi-peripheral' countries like Australia (Table 1.5) or South Africa, and in a few of the countries of the Third World (especially the newly-industrialising countries) have all increased in relative importance.[3]

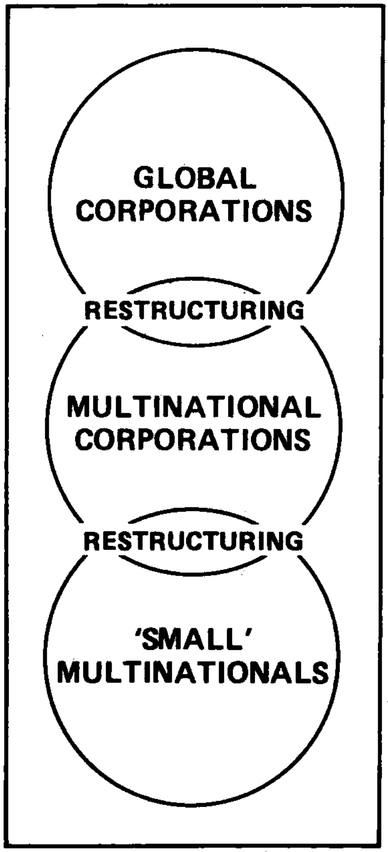
Sixth, many multinational corporations have taken on a more explicitly *fiscal* character (Taylor and Thrift, 1982), even when they are not in the banking and finance sectors. This new level of involvement with financial matters has arisen partly from the internationalisation of finance that took place in the 1970s, with the result that multinational corporations have come to rely increasingly on the international financial system to raise capital *and* generate profits, and partly through the increasing centralisation of all types of multinational corporation which has been stimulated by new links between multinational banking corporations and all other types of multinational corporation (see Fennema, 1982; Grou, 1983; Andreff, 1984).

What these six changes amount to is something of a paradox. There is a much greater *diversity* in the stock of multinational corporations than formerly (Figure 1.1). At the same time multinational corporations have become more *integrated*. Thus, although in many ways multinational corporations now represent a larger, more coherent economic bloc, it is a bloc which is cross-cut by many more fractures and fissures.[4] The explanation of how multinational corporations and national, regional and urban economies interact has, therefore, become correspondingly more difficult to achieve. The task of the researcher trying to characterise the operations of the multinational corporations in a country, region or city is made even more problematic because other areas of research which might provide potential guidance are themselves in a state of flux as a result of this set of changes. They can, therefore, provide only a limited source of inspiration. The three main areas of research are industrial economics, organisation theory and Marxist economic theory.

Industrial Economics

The old explanations of the multinational corporation prevailing in the 1960s in industrial economics have failed to account for many of the dimensions of the new multinational diversity (Dunning,

Figure 1.1: The Diversification of Multinational Corporations



1979). For example, Hymer's approach was based upon identifying the underlying characteristics of multinational corporations which gave them a competitive edge over other firms. Another approach, usually associated with the name of Horst, was based upon the identification of factors which led multinational corporations to locate in particular countries. Finally, Vernon's work on the product-cycle theory added the question 'when' to the question 'why', posed by Hymer, and the question 'where', posed by Horst. But each explanation proved deficient in some respect,[5] partly because they relied almost exclusively on United States-based corporate activity as an archetype and partly because they concentrated upon foreign direct investment to the exclusion of all other forms of multinational activity.[6]

The new theories that have grown up in the 1970s have tended to move away from this exclusive concentration on explaining foreign direct investment to the explanation of all forms of involvement by firms outside their national borders. This has necessarily meant that much greater attention is now being given to the multinational corporation itself as the locus of all these forms of involvement. This new focus of attention clearly leads towards two main areas of study, namely the theory of the firm and organisation theory. Of these two areas of study, it is the synthesis of the study of multinational corporations and the theory of the firm, going under the banner of *internalisation theory*, that has so far proved the most popular.

Internalisation is a simple term that applies to a simple insight, namely that a whole series of *transactions* are internalised within the multinational corporation rather than taking place within the market, either to protect against or to exploit market failure. In other words, planned coordination replaces the unplanned coordination of the market. Or, as Williamson (1975; 1981) would put it, hierarchies replace markets. In this depiction the multinational corporation is seen as an island of conscious power in a sea of unconscious cooperation whose form is the result of a long history of weighing up the administrative and other costs of allowing transactions to take place within the corporation against the benefits (and the risks) of allowing the market to do the work (Rugman, 1981; 1982; Caves, 1982). The problems in this kind of depiction lie in deciding exactly how, when and where the costs of internalisation are outweighed by the benefits, for otherwise the argument becomes perilously close to tautology — corporations internalise markets until it is no longer worth doing so. The problem of making such a decision on the bounds of corporations are compounded because many of the assets of modern multinational corporations (and especially the assets of corporations operating in the service industries producing intermediate goods) cannot be reduced to something concrete and tangible. They can muster a whole series of intangible assets such as technological know-how and marketing skills which are just as important as more tangible assets but much more difficult to measure (Caves, 1983).

Certainly the concept of internalisation has stimulated new thinking on the behaviour of multinational corporations. For example, vertical integration in multinational corporations used to be explained as arising from technological economies, a patently inadequate explanation in many cases. But, with the advent of the concept of internalisation, vertical integration is now explained as the outcome of a whole series of new factors operating in tandem to produce this particular form of internalisation — factors such as risk-reducing economies associated with long-term contracts, monopolisation in order to make it possible to enhance prices, the avoidance of government regulation (via transfer pricing, and the like), the desire to protect patents, and so on.

However, as this list of factors shows, internalisation theory is open to criticism on the grounds of its seemingly all-encompassing nature. Much of the recent work on internalisation in multinational corporations consists of precisely the addition of these new factors. Admittedly, acknowledgement of the existence of these new factors has been stimulated by the concept of internalisation. However, it is possible to question how far all these new factors can be tied together in one broad, overarching theory with internalisation as its core. As Buckley (1983, p. 42) puts it, internalisation theory is not so much a theory 'as a concept in search of a theory'. Thus,

> The search for a general theory of the multinational enterprise has led to the 'stretching' of partial concepts or to an increasingly cumbersome taxonomy. Challenges to the new orthodoxy have been met by redefinition of central concepts or increasingly long inventories of classification.

Dunning (1979; 1981; 1983) has tried to surmount the problems imposed by internalisation theory by proposing an 'eclectic' theory of the multinational corporation, increasingly referred to as the 'OLI [organisation, location, internalisation] paradigm'. As the acronym suggests, this is an attempt to add to the competitive advantage of internalisation that the multinational corporation enjoys the other determinants of foreign direct investment, namely the competitive advantages associated with ownership and location (Table 1.6). The worth of the OLI approach lies in its recognition of the fact that as well as a mushrooming 'in all types of transactions, notably of intermediate products, which are best undertaken by hierarchies rather than markets, and/or an improvement in the efficiency of hierarchies, particularly MNE

Table 1.6: The OLI Theory of International Production

Ownership advantages (of enterprises of one nationality (or affiliates of same) over those of another)

(a) *Which need not arise due to multinationality*— Those due mainly to size and established position, product or process diversification, ability to take advantage of division of labour and specialisation: monopoly power, better resource capacity and usage.
Proprietary technology, trademarks (protected by patent *et al.* legislation).
Production management, organisational, marketing systems; R & D capacity; 'bank' of human capital and experience.
Exclusive and favoured access to inputs, e.g. labour, natural resources, finance, information.
Ability to obtain inputs on favoured terms (due e.g. to size or monopsonistic influence).
Exclusive or favoured access to product markets.
Government protection (e.g. control on market entry).

(b) *Which those branch plants of established enterprises may enjoy over new firms.*
Access to capacity (administrative, managerial, R & D, marketing etc.) of parent company at favoured prices.
Economies of joint supply (not only in production, but in purchasing, marketing, finance etc. arrangements).

(c) *Which specifically arise because of multinationality.*
Multinationality enhances above advantages by offering wider opportunities.
More favoured access to and/or better knowledge about information, inputs, markets.
Ability to take advantage of international differences in factor endowments, markets.
Ability to diversify risks (e.g. in different currency areas).

Location advantages (these may favour home or host countries)

Spatial distribution of inputs and markets.
Input prices, quality and productivity (e.g. labour, energy, materials, components, semi-finished goods).
Transport and communications costs.
Government intervention.
Control on imports (including tariff barriers), tax rates, incentives, climate for investment, political stability, etc.
Infrastructure (commercial, legal, transportation).
Psychic distance (language, cultural, business, customs, etc. differences).
Economies of R & D, production and marketing (e.g. extent to which sales economies make for centralisation of production).

Internalisation advantages (i.e. to protect against or exploit market failure)

Avoidance of transaction and negotiating costs.
To avoid costs of enforcing property rights.
Buyer certainty (about nature and value of inputs (e.g. technology) being sold).
Where market does not permit price discrimination.
Need of seller to protect quality of products.

Continued on p. 10

Table 1.6 continued

To capture economies of interdependent activities.
To compensate for absence of future markets.
To avoid or exploit government intervention (e.g. quotas, tariffs, price controls, tax differences etc.).
To control supplies and conditions of sale of inputs (including technology).
To control market outlets (including those which might be used by competitors).
To be able to engage in practices (e.g. cross-subsidisation, predatory pricing etc. as a competitive or anti-competitive strategy).

Source: Dunning (1979), p. 276.

hierarchies relative to other forms of governance, to organise these and other transactions' (internalisation advantages), there has been a proliferation in, 'the demand for the types of goods, services and rights which MNCs are particularly well-equipped to supply, and/or an enhanced ability on their part to supply and market these relative to their competitors' ownership advantages'. At the same time, 'the inducements to enterprises to produce goods and services from a foreign location have grown; and/or the demand for the type of output which is best supplied from foreign locations has increased' location advantages (Dunning, 1983, p. 102).

Using the OLI approach, many more situations in which multinational corporations are involved can be explained than by appealing just to the advantages of internalisation. In particular such an approach allows different weights to be placed upon different situations, according to which one or a combination of the three competitive advantages are the dominant force. Thus,

> it would be unrealistic to suppose that the OLI advantages which explain investment by Standard Fruit in the banana industry of Costa Rica are the same (or have the same value) as that by NV Philips Gloeilampenfabrieken in the electrical appliances industry of Greece, or that of Trust House Forte in the hotel industry. (Dunning, 1983, p. 103)

The OLI approach has been applied in a number of different empirical situations now, from the multinational hotel industry (Dunning and McQueen, 1981a; 1981b) to the location of the offices of different multinational business service corporations (Dunning and Norman, 1983), and has proved very successful in