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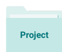

The New International Economic Order View project

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Globalization and Multinational Corporations

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Jeffrey A. Hart

INTRODUCTION

The term 'globalization' began to appear frequently in scholarly works on international political economy (IPE) in the 1990s. One way to define globalization is in terms of an increase in international interconnectedness, or interdependence, but its distinctiveness from interdependence derives primarily from the increased role of multinational corporations (MNCs)[1] in the contemporary world economy. Some authors stress the cultural side of globalization, arguing that globalization results in a homogenization of global culture (see, for example, Appadurai, 1996; Hopper, 2007). They observe that all urban centers feature the same boutiques selling products with the same logos, everyone watches the same movies and the same TV programs, and everyone eats at the same restaurants and drinks the same beverages. In this sense, the logos and branding efforts of MNCs are symbols of globalization. Opponents of this viewpoint stress the continuing cultural differences within and across nations. Some even argue that globalization enhances both convergence and divergence of cultures. Joseph Nye (2004) has highlighted the possibility that cultural globalization, to the extent that it is dominated by US firms, is a form of 'soft power'. But most of the politics of globalization focuses not on culture but on its economic aspects and the role of MNCs in globalization.

A multinational corporation is 'an enterprise that engages in foreign direct investment (FDI) and that owns or controls value-added activities in more than one country' (Dunning, 1992, p. 3). The MNCs of the post-WW2 period are different from those of earlier periods in being more focused on manufacturing and services than on extraction of raw materials and commodities (Dicken, 2015) and more likely to be financed by a combination of foreign direct

investment (FDI) and local capital rather than international portfolio investments (Gilpin, 1972). In addition, contemporary MNCs are the predominant owners of proprietary technology. MNCs account for at least 50% of R&D spending worldwide (Keller, 2009; Zeile, 2014). In the United States and elsewhere, most patents are awarded to MNCs (Florida, 2005; OECD, 2008). In the last two decades of the twentieth century, competing MNCs from a growing number of economies have created geographically dispersed 'value chains' to take advantage of lower R&D, production, and distribution costs made possible by lower barriers to trade and investment flows (Borrus and Zysman, 1997; Ernst and Kim, 2002; Gereffi, 1996; Gereffi et al., 2005; Sturgeon, 2002; Sturgeon, 2007; Sturgeon and Gereffi, 2009).

I will concentrate here on research about the relationship between economic globalization and multinational corporations. Economic globalization is the increasing integration of input, factor, and final product markets coupled with the increasing salience of MNCs in the world economy and their creation of cross-national value-chain networks (Hart and Prakash, 1999). MNCs are both beneficiaries and agents of globalization. MNC globalizing strategies would not be possible without a certain amount of globalization; globalization increases as MNCs exercise their options to pursue these strategies. The process of globalization is not complete and probably never will be, so much of the scholarship on globalization deals with whether there is more or less of it in a given period and what the constraints are on increases in globalization.

THE EXPANSION OF MNC ACTIVITY

In 2014, the global stock of inward and outward FDI was around $26 trillion, up from about $2.2 trillion in 1990. Global flows of inward and outward FDI were around $1.5 trillion in 2014, up from around $400 billion in 1995 (UNCTAD, 2015).[2] There has been substantial fluctuation in flows over the past few decades but the general trend is up. While most outflows originate in the industrialized nations, recently outflows from developing countries have grown more rapidly, especially from China. The United States is still the largest source of outflows and it has the largest stock of both outflows and inflows. Inflows are going increasingly to the developing world: 55% in 2014 (see Figure 18.1 below). A small number of developing countries are responsible for a large proportion of the developing world's inflows and outflows: China is currently the largest recipient of

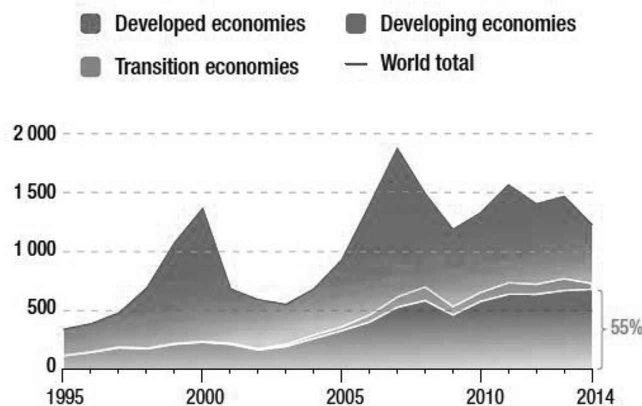

Figure 18.1 FDI inflows, global and by group of economies, 1995–2014 (Billions of dollars)

inflows, followed by Hong Kong, Singapore, Brazil, India, Chile, Mexico, and Indonesia (UNCTAD, 2015, p. 5).

UNDERLYING CAUSES OF GLOBALIZATION

As to the underlying causes of globalization, some scholars emphasize the role of international institutions, such as the World Trade Organization or the Organization for Economic Cooperation and Development, in setting the rules for the world economy (Simmons et al., 2008). Others focus on the role of changes in transportation and communications technologies that make it less costly to manage far-flung economic activities (Keohane and Milner, 1996; Friedman, 2007). Still others argue that the preferences of key national actors, particularly the United States, are central to explaining the recent trend toward globalization (Spero and Hart, 2009). It is quite likely that all three of these factors have played a role in recent decades. As the process of globalization continues, however, the growing international presence of MNCs from countries other than the United States means that explanations based solely on the preferences of the US government are becoming less and less useful.

Also, it has been difficult until recently to establish a specific international regime for investment. The international trade regime bears some of the burden of establishing rules for investment and there are a variety of forums for the resolution of disputes over investment. There has been rapid growth in bilateral investment treaties (BITs) (Elkins et al., 2006). Nevertheless, international investment remains more dependent on national legal systems and self-enforcement than on international regimes.

Advances in computing and telecommunications technologies have contributed greatly to the ability of MNCs to manage themselves and to take advantage of having operations in different countries and in different time zones. An example of this is the widespread use of call centers in India by firms based in the rest of the world. Thomas Friedman (2007) provides a number of other examples in his various books on globalization.

GRAVITY MODELS AND CONSTRAINTS ON GLOBALIZATION

The main obstacle to globalization is distance. Generally, the costs of managing far-flung economic activities go up as distance increases. Distance is measured not just in terms of geography, but also in terms of culture (language, ethnicity, religion, etc.). 'Gravity models' are used to measure the impact of these various forms of distance (Feenstra, 2004; Fratianni et al., 2011). They start from the assumption that bilateral trade and investment flows depend primarily on the size of the markets of the two countries involved and the distance between them. Geographic distance is a major factor in those analyses, but so are linguistic and other cultural differences. For example, pairs of countries in which a majority of the population speaks the same language are considerably more likely to engage in trade and foreign direct investment. US firms are more likely to invest in Britain or Ireland than in France or Germany; Chinese firms are more likely to invest in countries with Chinese-speaking populations (Oh et al., 2013; Selmier and Oh, 2013). Shared religion plays an important role in enhancing trade and investment flows among countries (Hergueux, 2011).

Domestic politics constitute another form of constraint. In general, countries with democratic regimes are more likely to trade with and invest in other countries with democratic regimes. This is partly a function of the fact that democracies are more likely to exist in high-income countries than in low-income countries. But it is also a function of a common set of institutions that are shared

by democratic systems, such as the rule of law and an independent judiciary (Bénassy-Quéré et al., 2005).

Certain countries seem disinclined to encourage FDI of any sort. The Soviet Union was generally hostile to FDI. Contemporary Japan is often singled out as a country that is hostile toward inward FDI but not outward FDI. After the 1978 reforms and until fairly recently, China was considered to be hostile to outward FDI but relatively accepting of inward FDI. Until recently, India did not encourage inward FDI. Countries with authoritarian regimes tended to trade with and invest in other countries with similar regimes. This was especially true during the Cold War, but that pattern has continued after the breakup of the Soviet Union.

Since the end of the Cold War, a major split has developed between the Islamic countries and the West over a variety of conflicts, which has a major cultural dimension. Orthodox Muslims are particularly concerned about the erosion of morality that accompanies the growing presence of MNCs. They see the culture of the West as represented in MNC merchandising to be contrary to the moral and religious principles that they would like to see preserved in the Muslim world. They also see MNCs as agents of Western imperialism. As a result, they are much more willing than other groups to forego the benefits of FDI inflows (Friedman, 1999).

Economic nationalists within all countries tend to oppose both outflows and inflows of FDI. Public opinion survey research has focused on how attitudes toward trade and investment contrast by variables at the individual or group levels. One of the key determinants is how an individual is connected to the national and global economies: in particular, whether or not the individual depends on goods and services that are traded internationally. Individuals in 'non-traded' goods and services industries tend to be accepting or indifferent to increases in international trade and investment flows. Individuals in traded sectors are accepting only if their sector is internationally competitive. If they perceive trade or investment to be threatening to domestic employment they will oppose it (Scheve and Slaughter, 1998).

In addition, support for globalization on the part of members of trade unions in the industrialized countries tends to be declining globally because of downward pressure on wages caused by a combination of the introduction of new production technologies and the difficulty of competing with low-wage labor in the developing countries (Pew Research Center, 2014). The managers of MNCs, in contrast, tend to favor further liberalization of world trade and investment flows. Although they have some stake in preserving the advantages that accrue to them from having learned about and adapted to the laws and practices of a wide variety of countries, still they tend to favor liberalization because it makes it easier for them to enter new markets.

These differences in attitudes within countries play an important role in international negotiations over trade and investment regimes. The current debate in the United States over the Trans-Pacific Partnership (TPP) is a good example of this. US trade unions are strongly opposed to the TPP because they see it as a threat to employment. Legislators who represent districts or states where unions are politically powerful tend to oppose the TPP. Senator Harry Reid, for example, is a strong opponent of TPP (O'Keefe, 2015). When President Obama wanted recently to visit a place where support for the TPP was strong, he picked the world headquarters of Nike Corporation in Beaverton, Oregon.

TWO TYPES OF FDI: HORIZONTAL AND VERTICAL

A central puzzle economists pose is why multinational firms choose to establish an overseas presence rather than simply export goods and services. The two main answers are (1) to gain access to potentially large markets that

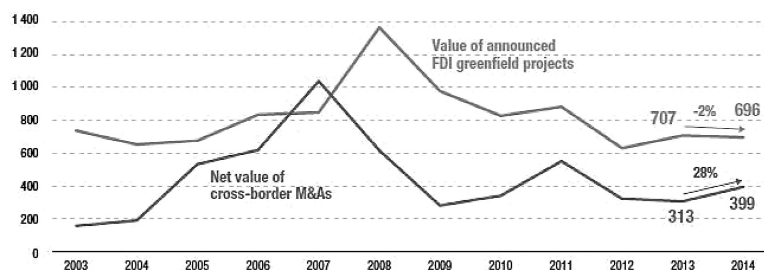

Figure 18.2 Value of cross-border M&As and announced greenfield projects, 2003–2014 (Billions of dollars)

would otherwise be closed – called horizontal foreign direct investment (HFDI) – and (2) to gain access to low-cost local inputs as part of a strategy of global competitiveness – called vertical foreign direct investment (VFDI) (see also Cuervo-Cazurra et al., 2015 for other possible motives). In general, HFDI typifies relationships between pairs of developed economies and VFDI typifies relationships between pairs of countries where one is developed and the other is developing (Navaretti and Venables, 2006).

MNCs sometimes set up 'greenfield' operations abroad rather than simply merging with or acquiring a local firm. Mergers and acquisitions used to account for the dominant share of FDI flows, especially to high-income countries. But greenfield investments are growing in importance because of the shift toward investing in developing countries. Most host countries prefer greenfield investments over mergers and acquisitions.

With regard to VFDI, the central question is how a firm will divide its production processes across different locations with different factor prices in the presence of 'trade costs' and 'disintegration costs'. VFDI flows between two countries will not occur unless factor endowments are sufficiently different. However, factor price equalization will occur over time, partly as a result of VFDI flows, and so VFDI may eventually be replaced by HFDI.

Why are the international operations of firms sometimes organized internally, in wholly owned subsidiaries, and sometimes externally, under arms-length contracts with independent local producers? The main reason given for internalization is market failure connected with arms-length contracts. According to Navaretti and Venables (2006), there are three types of market failures: the hold-up problem, the dissipation of intangible assets, and principal-agent relationships between multinationals and local firms. The hold-up problem occurs when a local firm has to make investments that are specific to the contracting relationship. The potential losses caused by an altered relationship result in underinvestment. The dissipation of intangible assets occurs when a foreign firm cannot avoid losing control over valued assets because it has a contractual relationship with a local firm. The principal-agent problem occurs because of hidden actions or hidden information about local market conditions. The local firm may have an interest in concealing local market information from the foreign firm.

The more recent literature on global value chains argues that many MNCs have opted for replacing or supplementing the establishment of overseas subsidiaries with contractual relationships with local or regional firms. These MNCs have adopted modularization strategies as part of a broader global competitiveness effort where components manufacturing and assembly may be done in low-wage or low-cost locations. This

necessarily involves a major effort to implement global standards for technology and interfaces. Because of lower coordination and transportation costs, the final products can be marketed anywhere in the world with sufficient guarantees of quality to make them globally competitive (Sturgeon and Gereffi, 2009). So, for example, Korean flat panel display firms contract with Japanese and US glass firms to supply them with specialized glass for displays (Murtha et al., 2001), and Taiwanese assembly firms such as Foxconn help Apple to assemble iPods in Taiwan (Linden et al., 2009) and iPhones in China.

THE OLI MODEL (ALSO CALLED THE ECLECTIC MODEL)

Many scholars employ an eclectic model pioneered by John Dunning and his collaborators to explain the behavior of MNCs: the so-called OLI model. OLI stands for ownership, location, and internalization. According to this model, an MNC must have market power that derives from ownership of some specialized knowledge. It must consider the particular foreign location advantageous for new investments relative to alternative locations including the home market. Finally, it must prefer to operate overseas facilities that it controls rather than simply contracting with local firms. Again the focus is on the importance of market imperfections and transaction costs in creating incentives for overseas activities of MNCs (Dunning, 1992).

The OLI model has its defenders and detractors. A volume edited by Cantwell and Narula, (2004) emphasizes the need to simplify and operationalize key variables.

Globalization vs. Regionalization

Some scholars argue that what we have witnessed so far is not globalization per se, but rather regionalization of the world economy. Alan Rugman and his collaborators have argued this forcefully in a number of empirical studies (Rugman, 2001a; Rugman, 2001b; Rugman and Girod, 2003; Rugman and Oh, 2008). Rugman believes that the difficulties of coordinating activities across large distances combined with the generally long-term nature of FDI means that fully global strategies are too costly and too risky for most multinational corporations. Most MNCs choose to focus on regional strategies instead.

One of the reasons that the analysis of trade and FDI data seems to bear out Rugman's argument is the efforts of certain regions, most notably the European Union but also North America and Latin America, to integrate their economies through free trade areas and common markets. Inter-regional trade and investment flows are considerably higher as a result than extra-regional trade and investment flows (Akhter and Beno, 2003).

Also, some regions have fewer constraints to integration. There may have been substantial efforts to improve regional transportation and communication infrastructures and to take advantage of regional culture commonalities to encourage trade and investment flows. An additional impetus has been to promote regional integration as a way of lessening dependence on extra-regional economies. In the case of Western Europe, the challenge of competing with the United States played an important role in convincing the citizenry to support regional integration efforts. In Eastern Europe, affiliation with the European Union serves as a signal to foreign investors that FDI is welcome in an affiliated country (Akhter and Beno, 2011; Bevan and Estrin, 2004).

With the recent rise of the Chinese economy and the earlier growth in Japan and Southeast Asia, there have been significant changes in Asia-based regional integration efforts. All the factors that have influenced regionalization in North America, Western Europe, and Latin America are starting to influence regionalization in Asia. Besides the Asian Development Bank (ADB), the Association of South East Asian Nations

(ASEAN), and the somewhat weaker South Asian Association for Regional Cooperation (SAARC), China has recently led the way to forming an Asian Infrastructure Investment Bank (AIIB) (Rimmer, 2014, Chapter 9).

THE CONTINUING ROLE OF THE GOVERNMENTS OF NATION-STATES

Some students of globalization argue that the governments of nation-states have become increasingly irrelevant as globalization proceeds (Strange, 1996). The main decision-making power about the allocation of economic resources, they argue, is increasingly in the hands of MNCs who have many locational options and are not necessarily loyal to any particularly country, including the 'home country'. In the absence of credible global intergovernmental governance, MNCs become the main governors of the world economy.

Others argue that the governments of nation-states still ultimately control the direction of globalization: what has been globalized can be reversed in their view, especially during times of conflict (Pauly and Reich, 1997; Doremus et al., 1998). They cite examples of historical periods in which this has occurred, but also more recent examples of reversals of trade and investment flows. The great reduction of investment flows during and after World War I is the main historical example (Wolf, 2004, Chapter 8), while the major shifts in bilateral economic relationships between, for example, the United States and Venezuela or between Russia and the Ukraine are more recent examples. War and other forms of militarized conflict are strongly and negatively related to FDI flows (Bussman, 2010).

Even in the absence of conflict, however, national governments still possess many policy instruments that can affect the level and quality of MNC activity. The most obvious is the power to assess and collect taxes, but there are many other sources of leverage. For example, some countries favor domestic firms by granting them subsidies and other forms of preferential treatment. Some nurture 'national champion' firms in high-technology industries (Hart, 2001). Some countries offer technical and scientific assistance to domestic firms that is not available to foreign firms. Some governments attempt to control MNCs by limiting access to their domestic markets through licensing requirements or other entry barriers. They may require that firms establish joint ventures instead of wholly owned subsidiaries. Still others impose export requirements.

Finally, governments of nation-states continue to play a dominant role in international intergovernmental institutions such as the World Bank, the International Monetary Fund, the Organization of Economic Cooperation and Development, and the international economic summits of the Group of 8 (G8) and the Group of 20 (G20). While MNCs increasingly have a seat at the table in what used to be exclusively intergovernmental forums (see Levy and Prakash, 2003), they still cannot match the capabilities of the governments of large and powerful nation-states in global governance.

THE CONSEQUENCES OF MNC-LED GLOBALIZATION

Who benefits and who loses when globalization increases, especially through the global spread of MNC activities? There are clearly many benefits from globalization (see, for example, Bhagwati, 2007). Consumers have access to many products and services at lower prices than they would otherwise have. Producers and consumers may have better access to capital, technology, marketing experience, and managerial expertise. The managers and employees of internationally competitive MNCs benefit, as do their shareholders and other investors. The dispersion

of economic activity globally creates job opportunities for many citizens of those host countries that have received inflows of FDI and are successful in producing products that can be sold globally. Ideally, the presence of MNCs should increase the level of competition in local markets (unless MNCs have used mergers or acquisitions merely to reduce competition).

Critics of MNCs argue that they often engage in anti-competitive practices, that they do not employ or transfer the latest technologies, that they do not adequately train local workers and managers, that they tend to import crucial components instead of sourcing them locally (thus increasing trade deficits), that they fail to recognize the rights of workers and exclude union members from their facilities, that they engage in environmentally unsustainable practices, etc. (see, for example, Rodrik, 2011). The most common criticism of MNCs deals with the loss of control. Even though subsidiaries of MNCs are subject to local laws and regulations, the critics argue that local authorities are unable to counter MNC lobbying for special treatment and that MNCs, unlike local firms, can credibly threaten to move to a new location if they do not get what they want. When MNCs finance their overseas operations entirely on local capital markets and fail to use any FDI funds to invest in a new facility, critics argue that they are not contributing to the overall level of investment but are merely displacing local firms and crowding them out of local capital markets. It is a matter of empirical research as to whether the defenders or the critics of MNCs are right or wrong.

ISSUES ASSOCIATED WITH GLOBALIZATION AND MNCS

Specific policy issues associated with globalization and MNCs include but are not limited to the following categories:

INCENTIVES FOR INWARD FDI

Government officials charged with promoting economic development are interested in attracting new investment flows, both domestic and foreign. Many of the same policies that are attractive to domestic investors are also attractive to MNCs: access to resources and infrastructure, pools of appropriately skilled labor, business-friendly regulations, acceptable tax rates, etc. Occasionally, officials have to go the extra mile to attract foreign firms, especially when the firms have no experience of investing in that particular location. Besides going on trade missions to the home country of the MNC, officials might offer tax holidays and other inducements not available to other firms. Such inducements are not always popular with the locals, however, especially if the cost of inducements is outsized relative to the number of resulting jobs. In addition, the temptation to relax regulations or reduce taxes in one location can produce ‘races to the bottom’, which end up cancelling any local advantage (Dadush, 2013).

TRANSFER PRICING, TAX HAVENS, AND INVERSION

One of the more controversial aspects of MNC activity is the use of creative accounting to ensure that profits are located in countries with the lowest rates of taxation. One of the ways to do this is with transfer pricing (Rugman and Eden, 1985). A particularly graphic example recently was the very low taxes paid globally by Apple Corporation because of a deal negotiated in 1991 with the government of Ireland. Apple apparently shifted taxable revenue from its global operations to its Irish subsidiary in order to avoid taxes. While the usual corporate tax rate for MNCs in Ireland is around 12.5%, Apple negotiated a tax rate of 2%. Both the US government and the European Union

criticized this deal widely, and Ireland was asked to end that particular tax loophole (Duhigg and Kocieniewski, 2012).

The research on transfer prices indicates that MNCs engage in the practice in a limited manner, enough to show that some taxes are shifted to low-tax locations (Grubert and Mutti, 1991; Grubert, 2012). Some firms advise MNCs on how to do this without being too obvious. There have been significant efforts within the OECD to promulgate guidelines on transfer pricing (OECD, 2010).

More recently, public officials have expressed concerns about the attempt of some MNCs to change their headquarters to low-tax locations. This is generally done by merging with a firm in a low-tax location. A recent example is the attempt by the US pharmaceutical firm Pfizer to become a British corporation by merging with AstraZeneca. According to the Department of the Treasury, effective US corporate tax rates declined from 29% in 2000 to 17% in 2013 as a result of inversions and transfer pricing. President Obama called these practices ‘unpatriotic’ in a speech delivered in July 2014 and Secretary of the Treasury, Jack Lew, issued new regulations meant to reduce the tax savings achieved by inversions.

So far there is no strong international regime regulating transfer pricing, tax havens, and inversions. The OECD has adopted guidelines but they are voluntary. The global evasion of taxes by MNCs is likely to remain an issue for a long time to come (Palan et al., 2009).

TECHNOLOGY TRANSFER

Since MNCs are generally better able to generate new technologies than non-MNCs and to own intellectual property rights associated with those technologies, a key issue is whether or not locals can gain access to MNC technology at a reasonable price. More importantly, locals will want to participate in the creation of new technologies themselves, if possible. These sorts of questions are lumped into a category called ‘technology transfer’. Technology transfer does not require that MNCs share intellectual property directly but simply that locals have sufficient access to the underlying technology to develop their own solutions to problems. When this occurs, the positive spinoffs from MNC-related technology transfer can be significant and long lasting.

One of the ways this can occur is if the MNC establishes a local research and development facility. There is a growing body of literature on the factors that influence the decision to do this (Teece, 1977; Dunning, 1994; Narula, 2014). One important factor is strong enforcement of intellectual property laws (Zeile, 2014). Another is investment in the education and training of skilled workers (including scientists and engineers). In some industries, a key factor is investment in physical infrastructures necessary for research and development, such as computer networks and advanced telecommunications facilities (Donaubauer et al., 2014).

MNCS FROM EMERGING ECONOMIES

The dominance of US-based MNCs was greatly reduced from the 1970s onward when first MNCs based in Western Europe and Japan and later MNCs based in Southeast Asia (particularly Korea and Taiwan) began to establish a strong presence outside their regions. The latest set of big players in global FDI flows includes Brazil, Russia, India, and China (the BRICs) and the formerly communist countries of Eastern Europe. That group of countries is often referred to as the ‘emerging economies’.

One key question addressed by scholars is whether these new MNCs behave differently from older MNCs and whether a new set of theories is necessary to explain their behavior. Several scholars argue that the answer to

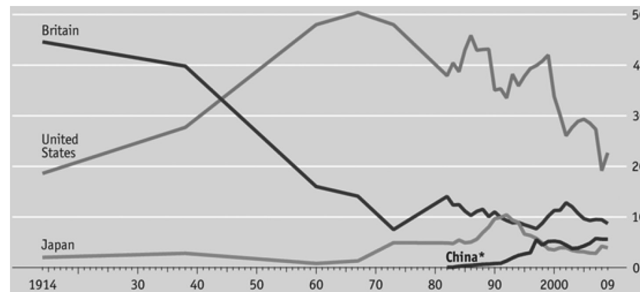

Figure 18.3

these questions is that existing theories are sufficient (Alon et al., 2011; Ernst and Kim, 2002; Narula, 2012).

Recently scholars have been paying particular attention to Chinese FDI because of the rapid growth of the Chinese economy and a recent policy shift toward encouraging outward FDI (Shambaugh, 2012). The record of inward FDI in China is also a subject of a number of studies. Most FDI inflow into China is directed toward gaining access to the large and rapidly growing domestic market. Outflow, in contrast, started primarily as a means to improve access to foreign deposits of energy and raw materials. More recently, however, Chinese outflows are directed toward industrialized nations as a means to gain access to advanced technology and markets for high-value-added goods and services. Chinese outward FDI is controlled disproportionately by state enterprises and not by private firms.

INTELLECTUAL PROPERTY

Because MNCs create and own intellectual property in a variety of important technologies, the governments of nation-states are often concerned about guaranteeing access to those technologies at reasonable cost. Each country has its own laws governing intellectual property. Some are stricter and more strictly enforced than others. MNCs that depend heavily on patents and licensing fees complain frequently and loudly about the fact that their intellectual property is insufficiently protected in some markets. For example, the US-based film and recording industries want China to clamp down on what they call the 'piracy' of their intellectual property via the illegal copying of CDs and DVDs.

Several efforts have been made to create new international regimes for the protection of intellectual property. Within the WTO, the agreement on Trade Related Intellectual Property (TRIPS) deals with this question, but remains a thorn in the side of the governments of developing nations. A section of the still secret draft of the Trans-Pacific Partnership deals with this issue (for an overview see Flinn et al., 2012).

DISPUTE SETTLEMENT

MNCs have a strong incentive to create new institutions for the settlement of investment disputes. Although there are some legal protections available to them to prevent appropriation of their property without adequate compensation, there is still a long way to go. From the MNC perspective, a key issue is how to resolve disputes between themselves and other MNCs and both home and host governments. MNCs rely increasingly on bilateral investment treaties and national

courts to handle these disputes, but there are a number of alternative forums that have evolved over time.

In 1995, the OECD began negotiations on new rules for international investment called the Multilateral Agreement on Investment (MAI). In February 1997, a draft of the agreement was leaked to a public advocacy organization in the United States (Public Citizen), provoking a series of anti-globalization rallies and demonstrations that ended with a suspension of the negotiations (Graham, 2000). Since then, there have been a variety of proposals for new investment dispute resolution regimes.

The International Center for the Settlement of Investment Disputes (ICSID) was set up within the World Bank Group in 1966 to provide facilities for conciliation and arbitration of investment disputes. Disputes may be referred to ICSID under the provisions agreed to in BITs and free trade agreements (FTAs) if the parties agree to do so. The figure below shows the growth in the number of cases referred to ICSID between 1972 and 2014. Over a third of the disputes are settled or dismissed before a final ruling is made (ICSID, 2015).

The most recent proposal is for an Investment Framework Agreement (IFA) within the World Trade Organization. According to proponents, the IFA would not replace existing BITs or investment chapters in FTAs and would be open to a much broader set of countries (Hufbauer and Stephenson, 2014). So the effort to create a multilateral agreement continues alongside the bilateral and minilateral efforts.

EXTRATERRITORIALITY

When MNCs operate across national boundaries in ways that national governments consider to be prejudicial to their interests, it becomes tempting to pass legislation or enforce laws that are 'extraterritorial': that is, they apply to the operations of firms outside the territorial jurisdiction of national legal regimes. A good example of this is the anti-bribery laws that have been applied to the foreign behavior of US-based MNCs. Those laws apply not only to activities that occur in foreign countries, but also to the action of foreign firms that have US subsidiaries. The

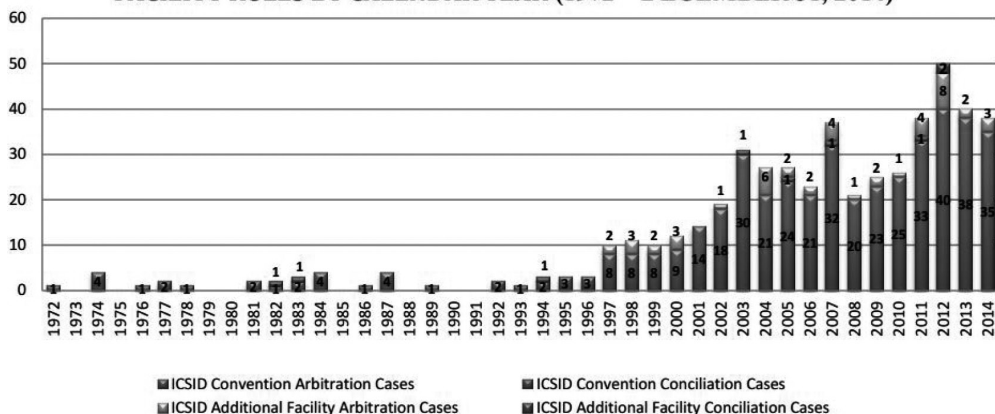

Figure 18.4

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main reason MNCs oppose extraterritoriality is that it forces them to do what they consider to be impossible: to comply with potentially contradictory laws and regulations in more than one jurisdiction.

Issues of extraterritoriality come up whenever trade or investment sanctions are applied by governments seeking to change the behavior of others. In 1997, the Canadian subsidiary of Wal-Mart was required to comply with US laws regarding the trade embargo with Cuba (Clark, 2004). In 2012, the US government imposed restrictions on the activities of US subsidiaries of foreign MNCs as part of the larger effort to get Iran to stop developing nuclear weapons. Two foreign banks were prohibited from having access to US banks while they were doing business with Iranian firms. Organizations such as the International Chamber of Commerce are opposed to the application of exterritorial laws because, in their view, the result is unnecessary barriers to trade and investment flows. Also opposed, for obvious reasons, are the governments of countries negatively affected by such laws.

CORPORATE SOCIAL RESPONSIBILITY

Because of the great variety of public image problems that have been generated by MNC activities, many firms have adopted strategies for highlighting their potentially positive contributions by advertising widely their goals for 'corporate social responsibility' (CSR). CSR is 'a self-regulatory mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms' (McWilliams and Siegel, 2001).

Almost every major MNC has a website in which a number of pages are devoted to enumeration and illustration of its CSR activities. These pages usually include information about what the firm is doing to preserve the environment, to collect and distribute charitable contributions from its employees, to encourage its employees to engage in public service of various kinds, and to conduct business in an ethical manner. Skeptics claim that such activities are 'window dressing' and not terribly meaningful, but others argue that CSR can lead to a shift in corporate behavior toward good global citizenship, particularly in the area of supporting human rights (Ruggie, 2013).

CONCLUSION

Existing research on MNCs and globalization indicates a variety of potential directions for future research and for tasks to be undertaken by public affairs managers of both governments and MNCs interested in changing (for the better, hopefully) the rather poor image that MNC-led globalization has among the general population worldwide. Ironically, it is likely that these efforts are more necessary in the industrialized world than in the developing regions because, so far at least, globalization has a good reputation for reducing global inequality (especially in big countries such as China and India) in the developing world but not in developed regions (Pew Research Center, 2014). In the industrialized world, MNCs and MNC-led globalization are blamed for environmental degradation, exploitation of Third World workers, undermining democracy, tax evasion, and the hollowing out of the middle classes. In the developing world, the problem is usually one of a lack of transparency and accountability (Stiglitz, 2008). Not all of these negative images are justified, of course, but they are increasingly common and deeply held. In short, MNC-led globalization has a legitimation problem.

It is not clear what efforts on the part of MNCs themselves can reduce this negativity. It is more likely that strengthened international economic governance institutions with direct representation not just of governments and MNCs but also of other stakeholders

are needed in a broader effort to legitimize globalization (Higgott et al., 2000; Levy and Prakash, 2003; Scherer et al., 2006; de Burca et al., 2014).

NOTES

1 Multinational corporations are also referred to as multinational enterprises (MNEs), transnational corporations (TNCs), and transnational enterprises (TNEs).
2 Stocks are a measure of cumulative flows over time. They represent the value of the MNCs' share of fixed investment. Whereas flows can fluctuate dramatically, stocks are somewhat more stable because they reflect the underlying value of accumulated investments.

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