8 Non-triad multinationals and global governance
Still a North–South conflict?

Andreas Nölke and Heather Taylor

Introduction

According to projections made by Goldman Sachs, by 2030 Brazil, China, Russia and India will collectively possess product and services markets substantially larger than the combined size of G7 countries today. It is further predicted that such dynamic growth will bring their collective gross national product (GNP) over the same time frame up to $41 trillion, only two trillion dollars below that of the projections made for the G7 for the same time frame (Van Agtmael 2007: 11). While these projections may have to be adjusted for the repercussions of the subprime economic crisis, we nevertheless may expect a substantially increased role for non-triad economies in the decades to come.

The role of home-grown firms, hereafter deemed “non-triad multinational companies” (NTMNCs), will be crucial for these economies to realize these predictions. These firms will not only be responsible for pushing economic growth within their home countries, but, more importantly, their amplified presence and dominance in the global economy subsequently imply that their ability to shape, if not to articulate and dictate, global business regulation will steadily escalate. The core question motivating this contribution is whether the rise of NTMNCs will lead to a renewed North–South conflict, similar to those around demands for a New Economic World Order during the 1970s. In order to anticipate the global regulatory implications of the rise of NTMNCs, we first have to understand how these companies emerged and how they operate, with a specific focus on their domestic regulatory environment. More specifically, will they support the current regulatory environment, or will they prefer alternative forms of economic order?

In geographical terms, where do NTMNCs come from? In the absence of a comprehensive database on these companies we are relying on a variety of company rankings provided by academics, business journals and international organizations. Through cross-referencing six investment rankings to achieve a list of NTMNCs appearing on at least two of those rankings, the top home countries of NTMNCs are given by Figure 8.1.

As far as sectors in which NTMNCs are involved, we can distinguish four specific clusters: (1) conglomerate groups; (2) natural resources (fossil
Non-triad multinationals and global governance

Figure 8.1  Non-triad multinationals per non-triad nation.

*China including Hong Kong


fuels and mining); (3) non-financial services (telecommunications, software and computer services, electrical and electronic equipment, air transport and seaports, construction); and (4) capital-intensive industrial commodities (motor vehicles, cement, food and beverages).

This is the third wave of NTMNCs to hit the global economy in the post-war period, whereby it is crucial to realize that this generation has managed to spark tension and anxiety in the triad at a more rapid and consequential pace than either of the preceding waves. Tensions have reached an all-time high as brownfield investments (i.e. acquisitions) have increasingly become the predominant mode of entry choice into triad markets versus greenfield investments, which continue to be the main form of foreign direct investment (FDI) in non-triad markets. “During 2005 alone, emerging multinationals [NTMNCs] spent a record $42 billion in takeover deals in Europe (more than twice the previous year) and another $14 billion (in ninety-six separate deals) in the United States, well above the $10 billion previous peak in 2000” (Wall Street Journal, February 13, 2006, cited by Van Agtmael 2007: 25). The surge in brownfields in the triad has sparked anxiety precisely because it entails NTMNCs gaining access not only to triad markets but, also more importantly, to resources (both tangible and intangible assets, inter alia technology, knowledge, natural resources, manpower). Moreover, the close relationship many NTMNCs have with their home governments has done precisely the opposite of placating tensions.

In order to address – and possibly decrease – these tensions, this paper asks whether there is a structurally rooted conflict between triad and non-triad MNCs. In order to do so, it undertakes a theoretical discussion of how different business communities (i.e. NTMNCs in contrast to triad-MNCs) are likely to respond to global governance issues, both as subject and as likely opponent to existing
global governance arrangements. In the absence of direct empirical evidence on NTMNCs’ take on global governance issues, we take a more indirect approach in order to formulate theoretically grounded expectations for NTMNCs’ response to global economic governance. As a first step we will ask whether NTMNCs are different and, if they are, in what sense. More particularly, do they have significantly different growth strategies or business models? We will do so in the next section on the basis of a review of the existing theoretical approaches on triad-MNCs and contrast those theories with the experience on NTMNCs.

As a second step we take on the question whether the differences between the national business systems in which triad and non-triad MNCs are rooted do matter. For this purpose, in the following section we use, the Varieties of Capitalism approach as a heuristic device in order to identify the institutional preferences of NTMNCs. During a third and final step, we will contrast these preferences with the existing global governance institutions (as mainly shaped by the preferences and practices of triad-MNCs) and will chart the corresponding potential for future conflict.

Conventional theoretical approaches to (NT)MNCs

Broadly speaking, international business and economic scholars have primarily been the sources responsible for developing theories on MNC internationalization processes. In the last thirty years, there have been three such influential approaches: (1) the eclectic paradigm; (2) the product cycle model; and (3) the linking, leverage, learning (LLL) approach. Despite the strengths of each theory, one cannot ignore that fact that each is ridden with inherent weaknesses. In what follows below, we briefly outline the tenets and weaknesses of each of these theories.

The eclectic paradigm

The eclectic paradigm of international production (Dunning 1981, 1986, 1988a, 1988b, 1995, 1998) is by far the most widely accepted and utilized approach in international business for analyzing MNC internationalization. Its appeal stems from its dynamic take on internationalization as a process. This dynamic approach is achieved through the provision of two separate, yet interrelated, theoretical frameworks – the OLI and the IDP frameworks.

In short, the OLI framework outlines the conditions of MNC internationalization. It builds a theoretical approach around sequentially answering three questions pertaining to internationalization – why, where and how. On this basis, internationalization strategies are understood in terms of three categories of “advantages”: (1) “O”: ownership advantages (why); (2) “L”: locational advantages (where); and (3) “I” internalization advantages (how). While all three variables are significant, O-advantages are the cornerstone variable. Internationalization is costly: upon initial entry into the market foreign firms will always be operationally disadvantaged compared to domestic firms. Internationalization should thus be a strategy reserved for firms possessing O-advantages. The ascendancy of
O-advantages is crucial in the framework as they foreordain whether and why a firm should internationalize. Put simply, the “L” and the “I” in OLI are secondary advantages which can only be exploited if there is an “O.”

The second theoretical component of the eclectic paradigm is the investment development path (IDP). While the OLI framework deals with firm strategy, the IDP places the internationalization process of firms within their home country stage of economic development. The main premise of the IDP suggests for any given country there exists a positive correlation between net income levels per capita and net foreign direct investment. Thus, growth income levels will be accompanied by an increase in net foreign direct investment. From here, the correlation for each country between the two variables is measured relative to the rest of the world. This comparison between the individual country and the rest of the world is used to determine the location of that country along the investment development trajectory. Thus, countries are catalogued according to stages that range from 1 to 5 based on measuring national net inward and outward investment levels and correlating it to national gross per capita income in a given economy relative to the rest of the world. As an economy moves upwards from stage 1 to stage 5, the O-advantages, which are available for domestic firms to exploit through internationalization, will grow. In positing the stages of economic development, the IDP goes on to theorize that, if a country is facing a capital shortage because of a lack of foreign exchange reserves, it should foremost aim to pursue a policy that builds up reserves through importing capital. Moreover, capital importation should be aimed at attracting foreign-MNC inward foreign direct investment (FDI) in order to simultaneously build up national capital reserves and domestic firm capacity through transferring technology. An economy lacking capital and supporting domestic firm internationalization will head down a developmental path consisting of continuously poor and stunted growth rates because capital imports were not available to strengthen the specific competitive advantages of firm and comparative advantages of the country. The developmental stages of the IDP can, overall, be summarized as tracing the transformation of an economy from being a net capital importer into a net capital exporter.

The eclectic paradigm has certainly provided useful insights regarding MNC internationalization strategies. Nevertheless, it is not sufficiently equipped to provide a comprehensive account of NTMNCs due to its numerous pitfalls. It is perhaps the origins of the paradigm which pose the most fundamental quandary. Both frameworks in the paradigm were originally developed in the 1970s to explain the internationalization experiences of triad-MNCs, specifically Anglo-Saxon MNCs. Since then, neither framework has undergone any large modifications. Despite transformations within the global economy and the existence of a set of fundamentally different non-Anglo-Saxon MNCs operating in the global economy, the eclectic paradigm has remained true to its roots as an ex post explanation of Anglo-Saxon MNC internationalization strategies. Precisely because scholars utilizing the framework often openly assume that “the multinationalizing trend [is] widely recognized as similar in nature irrespective of the nationality of the parent company” (Vernon 1983; 12, cited by Wilkins...
1986: 202), the paradigm has just been repetitively applied for nearly 30 years to all various sorts of MNCs and MNC internationalization strategies.

Regarding the pitfalls of each respective framework within the paradigm, the fundamental drawback of the OLI framework is its vertical compartmentalization of the three variables of the internationalization process in a sequentially ordered manner, which only allows for them to be dealt with on a one-by-one basis. Thus, internationalization becomes trapped within a static theoretical framework that ignores the dynamic and ongoing interaction between variables (Ramamurti 2008: 26). Furthermore, the OLI framework cannot readily explain how and why NTMNCs have successfully internationalized when lacking the cornerstone O-advantages. The approach cannot grasp that “when[NTMNCs] decide to invest overseas … they rarely have at hand resources such as proprietary technology, financial capital, brands and experienced management” (Bonaglia et al. 2006: 4) which are required O-advantages in the OLI framework. Along the same lines, it also cannot explain how these forms of NTMNC internationalization are then able to be successful, especially in terms of spawning value-creating synergies.

Coming to the IDP framework, its core dilemma relates to the rapid internationalization strategies of NTMNCs that overtly receive support from home-country non-triad economies with scant capital reserves. Most recently, scholars have given “economic globalization” the blame for this empirically unsustainable theoretical conundrum. A final problem in the IDP, and indeed the paradigm as a whole, is the scant attention given to socio-economic and political institutions in the internationalization process. To be sure, the paradigm does indeed posit that institutions matter, and the IDP framework supposedly helps to theoretically outline how institutional capabilities are built within a national economy. Despite this recognition, neither the paradigm as whole, nor the IDP individually, has been able to successfully incorporate institutions into the analysis. Given that both the OLI and IDP frameworks implicitly assume that the MNC is an institution in itself and minimally shaped by, let alone dependent on, its domestic institutional environment, it is highly likely that institutions will remain a rather oblique concept in the eclectic paradigm and its corresponding frameworks.

**The product cycle model**

The product cycle model (Buckley and Casson 1976; Vernon 1966; 1977) postulates that firms innovate in response to demand and factor prices in their home markets. After creating a product, firms supply their home markets and then foreign markets similar to their own. Exporting should be the first internationalization strategy pursued by firms in these markets. Production facilities should be established in the host market when demand increases and alterations to the profit possibilities for the firm in the host market occur. From here, as standardization in the product market slowly develops and as more companies gain access to the knowledge and technology required to produce, competition will become fiercer and primarily based on pricing.
Non-triad multinationals and global governance

In the early nineteen-eighties, Louis T. Wells (1981, 1983, 1986, 1998) stipulated that it is precisely at this point that NTMNCs enter the model. As such, NTMNCs will imitate standardized technology and processes for production and then later adapt and modify the product to sell in their home environments. Through organizational innovation and lower input costs, the rise of NTMNCs at this stage in the model will encourage new investment patterns based on moving product manufacturing to non-triad markets and keeping product marketing and branding in triad markets.

The product cycle model has increasingly lost validity since many NTMNCs have become technology innovators. In 2006 alone, South Korea and Taiwan joined the ranks of the top fifteen R&D-spending countries (Department of Trade and Industry 2006). Furthermore, many NTMNCs have moved beyond manufacturing, becoming actively involved and highly profitable in branding, marketing and distribution of products and services in foreign markets. Examples of such firms include, inter alia, Wipro Technologies, the Tata Group and Zydus Cadila.

Like the eclectic paradigm, institutions are scantily mentioned in the model, especially with regard to NTMNCs’ economies. Moreover, the model is incapable of explaining the rapid surge in NTMNC brownfield investments targeting the triad. In aiming to provide an innovative and comprehensive approach to NTMNCs, the central task of this contribution is indeed to underline the quintessential role of socio-economic institutional environment in the internationalization process as a coordinating mechanism, which guides and shapes NTMNC firm behavior and preferences.

The linking, learning, leverage approach

To date there has only been one approach particularly created on the basis of the NTMNC strategies alone: the linking, learning, leverage (LLL) approach (Mathews 2002; 2004; 2006). Most startling about this approach is that, unlike the afore mentioned theories, it is premised on the recognition that profound differences exist between triad-MNCs and NTMNCs, and between the current and former waves of NTMNCs. These differences have risen out of the unique characteristics that current NTMNCs possess. It is crucial to realize that rapid internationalization has not necessarily occurred by choice. Unlike the generations of triad-MNCs and NTMNCs between 1960 and 1990, today’s NTMNCs have not been “pushed” into the global economy as standalone operators. Developments within the global economy over the last twenty years – i.e. economic globalization – have effectively ensured that integration of production, distribution and marketing networks is spread across the globe. As a result, an integrated global economy has “pulled” current NTMNCs into stepping up their involvement in the global economy and global networks. Thus, current NTMNCs have rapidly “gone global” and linked up with triad partners in foreign markets. Linking provides initial access to the foreign market and access to the knowledge and technology of the partner firm. This in turn affords NTMNCs with the chance to leverage the knowledge and technology they have been exposed to in foreign markets. A series
of feedback loops occurs during the process of leveraging, all aimed at internally 
incorporating, enhancing and/or altering the resources gained from linking. These 
feedback loops are in turn referred to as “learning” (Mathews 2006: 16–20). 
The LLL approach is perhaps the most valuable of the aforementioned theories 
as it has been created on the basis of NTMNC experiences. Furthermore, it also 
acknowledges the key role of institutions and governments in supporting and 
shaping the strategies of NTMNCs. Nevertheless, acknowledge is the key word to 
realize here. The approach has only very minimally elaborated on the coordination 
mechanisms related to institutions and governments. Moreover, when it has 
managed to give details on institutions, these details are primarily concerned with 
South Korean and Taiwanese MNCs. Thus, we are still left with an immense 
lacuna regarding: (1) which institutions have been essential; (2) in what ways 
they have been essential (i.e. in shaping preferences, strategies etc.); and (3) how 
the institutions have evolved as the NTMNCs they have bred become stronger, 
more aggressive, and more active in global markets (i.e., what influence have the 
NTMNCs had on their domestic institutions?).

A “modified varieties of capitalism” explanation 
for the rise of NTMNCs

As mentioned before, a conundrum facing most theoretical approaches on 
NTMNC internationalization arises out of the mere reality that they have been 
created to understand experiences of triad-MNCs. Precisely because of their 
axiomatic understanding of “MNC” and “internationalization” they are incapable 
of considering NTMNCs as unique. Moreover, while “institutions matter,” none 
of the approaches have the capacity to theoretically establish the link between 
the MNC strategies and preferences and the MNC–home-country institutional 
context. Indeed, why and how institutions matter has remained an unsolved 
mystery because, theoretically, NTMNCs and internationalization have remained 
two topics confined to evolving in a field that assumes that the MNC is an institution 
in itself. This chapter argues for the need to bring NTMNCs down into their 
socio-economic environment as it would enable a more comprehensive and unique 
approach to develop on them. In order to study these variances in the domestic 
institutional context, we turn to the “varieties of capitalism” approach.

The varieties of capitalism theoretical framework

During the last few years, the comparative capitalism perspective has become 
“canonical” among students of the political economy of Western societies (Blyth 
2003: 215). Pioneered by scholars such as Shonfield (1965) and popularized by 
Albert (1993), the “varieties of capitalism” (VoC) approach as elaborated by 
Hall and Soskice (2001a) has particularly become the hallmark of the study of 
comparative capitalism. Although the VoC approach has primarily been employed 
to empirical assessments of economic success in the OECD world, we assume 
that it can also be adapted to non-triad economies. In adapting the VoC approach,
the aforementioned theoretical approaches would be complemented with a more sociological and political approach to NTMNCs. The VoC approach is thus utilized below as a heuristic device with the capacity to provide us with categories that have to be addressed in order to explain the success of certain socio-economic systems. The primary focus is on domestic socio-economic institutional embeddedness of NTMNCs, since this entrenchment has allowed NTMNCs to develop specific competitive advantages and has also shaped their preferences and interests. Our analysis not only helps to better account for the rise of NTMNCs, but also helps to reduce some pitfalls of the VoC approach by broadening its empirical focus and overcoming its overly strict dualism (Crouch 2005: chapter 2; Hancké et al. 2007: 4–9; Jackson and Deeg 2006: 37–39).

Despite numerous alternatives (e.g. Amable 2003), the most widely utilized version of the comparative capitalism research program is that developed by Hall and Soskice (2001a). Indeed, most authors still prefer to depart from the coordinated market economies (CME) and liberal market economies (LME) juxtaposition. Besides offering a balanced and inclusive framework, its parsimony remains the quintessential advantage of the typology (Hancké et al. 2007: 16; Jackson and Deeg 2006: 31–32). Granted that the two basic models are clearly unable to give full justice to the intricacies of, for example, British, French or Italian capitalism, by providing a comprehensive account of the differences between Anglo-Saxon and Rhenish capitalism the approach is quite useful since it gives us the basis for developing a theoretical framework with the capacity to understand the manner in which domestic institutions interact and shape MNC behavior and preferences.

The main theoretical task of the CME/LME juxtaposition is to explain the marked differences in the competitive advantages of advanced capitalist economies. These advantages are most easily demonstrated if we focus on the different types of innovation process central to the two production systems (Hall and Soskice 2001b: 38–44). CMEs, such as Germany or Austria, are assumed to have a premium on incremental innovation. This is particularly important for producing capital goods such as machine tools and company equipments, consumer durables, engines, and specialized transport equipment. “The problem is to maintain the high quality of an established product line, to devise incremental improvements to it that attract consumer loyalty, and to secure continuous improvements in the production process in order to improve quality control and hold down costs” (ibid.: 39). LMEs, such as the US and the UK, in contrast, are supposed to focus on radical innovation. This is important in fast-moving technology sectors (e.g. biotechnology or software development), and in the provision of complex system-based products and services (e.g. financial services). Of course, these patterns of specialization do not comprise the whole economy. Basic services, for example, are produced throughout all economies, but are hardly covered by any VoC model (Blyth 2003: 223). Furthermore, equating an entire industry with a specialization pattern in innovation remains problematic since an industry, at any one time, is composed of more and less innovative activities (Crouch 2005: 31).
Andreas Nölke and Heather Taylor

The VoC approach hypothesizes that the inherent institutional complementarities of the two respective market economies help explain the broadly conceived innovation patterns. Each element of the two basic types has strong institutional complementarities with other elements of the same model, and differs clearly from the functional equivalent of the other model. Usually, five interdependent elements can be highlighted (Hall and Soskice 2001b 17–33; see also Jackson and Deeg 2006: 11–20), namely (1) the financial system, i.e. the primary means to raise investments, (2) corporate governance, i.e. the internal structure of the firm, (3) the pattern of industrial relations, (4) the education and training system, and (5) the preferred mode for the transfer of innovations within the economy.

(1) The primary means of raising capital for investment in the LME system are bonds and equities to be issued on international capital markets. In CMEs, domestic bank lending plays a much bigger role, together with retained earnings. The two different modes of financing clearly differ regarding the importance of current returns and of publicly available information. Companies in LME economies are strongly dependent on publicly available information and on current earnings for terms of investments. Dispersed and fluid investors need this information in order to value the quality of bonds and shares. In CMEs, balance sheet criteria are less important since investors have alternative sources of information, either as owners or based on long-term business (banking) relationships, together with diverse channels for reputational monitoring, such as business associations.

(2) Correspondingly, there is a stark difference between corporate governance systems in the two models. The LME model focuses on outsider control by dispersed owners, based on active markets for corporate control (mergers and acquisitions, including hostile takeovers). Managers enjoy a considerable freedom of maneuver, being controlled via incentives that are strongly geared towards share prices, e.g. via share options. The CME model, in contrast, has rather strong disincentives for hostile takeovers, and is primarily based on insider control by major shareholders (blockholders). Managers have to find the consensus of their supervisory boards for major decisions and therefore have to involve blockholders and labor representatives.

(3) Generally, the relationship between business and labor is far more consensual within CMEs, being based on a corporatist system of industrial relations including industry-level wage bargaining and powerful company-level works councils. This is a necessity for production strategies based on continuous improvements in product lines and production processes and on highly skilled labor. Management needs motivated labor to keep productivity high, whereas labor needs protection against lay-offs in order to invest into company-specific skills. The LME pattern of industrial relations, in contrast, relies heavily on the market as a coordinating mechanism. Management has full autonomy to hire and fire, based on highly fluid labor markets. Labor, in return, has few incentives to invest in company-specific skills, and instead focuses on general skills that are transferable across firms.
Non-triad multinationals and global governance

(4) Education and training systems in CMEs are geared towards the provision of skilled workers with highly industry- or company-specific skills. Correspondingly, business invests strongly into the human capital of its staff. CMEs have a comprehensive apprenticeship system and a strong focus on vocational training. Powerful employer associations prevent free riding of individual firms on the training effort of others. Given the fluidity of labor markets in LMEs, in contrast, there are only very limited incentives to invest in industry- or company-specific skills. Companies would not be able to benefit from their investments because workers might be lured away by competitors, whereas workers depend on acquiring skills that can be used in many different locations. Correspondingly, the education system is geared towards the provision of general skills.

(5) All capitalist varieties rely on the speedy transfer of innovations throughout the economy. Within LMEs, this transfer most frequently takes place by hiring qualified staff from other companies, or by acquiring the company responsible for that particular innovation. These options are both supported by rather fluid labor law and active markets for corporate control. In CMEs, these options are not readily available, given long-term labor contracts and protection against hostile takeovers. Instead, innovations are transferred by a host of inter-company relationships, including business associations or R&D joint ventures. This specific innovation system complements very well with sector-wide training schemes that focus on industry-specific skills.

In sum, the two models differ in particular regarding the basic mechanisms for solving coordination problems within national economies. In LMEs, the most important form of coordination is competitive market arrangements and formal contracts. In CMEs, non-market forms of coordination such as inter-firm networks and national or sector associations play a crucial role (Hall and Soskice 2001b: 8, 33–36).

Both models, however, tend to leave the state completely out of the picture. This leads to shortcomings regarding analyses of state-centered market economies such as France, Spain or Italy. Furthermore, it tends to underestimate the role of state regulation within LMEs and CMEs. Thus, we suggest complementing the Hall/Soskice model by incorporating the role of the state in general and that of the regulatory environment in particular.

While the varieties of capitalism framework usually is applied to explain the comparative advantages of whole national production systems, it can also be put to use in explaining the competitive advantages of individual multinational companies. In *The Myth of the Global Corporation*, Doremus et al. (1998) have conducted path-breaking research for precisely this purpose. Situated in the context of the debate on economic globalization and erosion of national differences, they demonstrate the enduring influence of national historical legacies on MNCs in Germany and the USA. Indeed, they utilize a remarkably similar approach to the VoC approach outlined above, although it does not elaborate a comparatively encompassing theoretical framework. Doremus and colleagues provide us with the capacity to interlink the national institutionalist VoC approach
with our focus on competitive advantages of NTMNCs. Thus, we can use the VoC findings on triad capitalist institutions and relate those to the (multinational) company level.

Varieties of capitalism: NTMNC institutional foundations

To be sure, just as with triad-MNCs, NTMNCs are not a homogeneous group of firms. As a heterogeneous group, NTMNCs possess a wide array of competitive advantages. These competitive advantages include lower input costs in comparison to their triad incumbents (Aguiar et al. 2006). Another major competitive advantage of NTMNCs has arisen out of operating experience in adverse market conditions, which allows them a considerable upper hand in sectors with a somewhat opaque regulatory environment or with a poor logistical situation (Goldstein 2007; Mathews 2006: 14; Van Agtmael 2007: 28–29). A third competitive advantage is related to superior access to natural resources in home and host economies, as exemplified by companies such as Gazprom or Petróleos de Venezuela. From a VoC perspective, the existence of a wide array of competitive advantages can partially be explained by the socioeconomic institutions supporting NTMNCs. As will be demonstrated below, these institutions are quite different from the CME and LME varieties documented above. Due to the early stage of research on NTMNCs, however, we can merely provide anecdotal evidence to furnish empirical backing for these arguments. Furthermore, we will only provide a rather general account, since we cannot give full justice to the situation of each individual company.

(1) The financial system

In contrast to LME-based multinationals (and an increasing number of CME-based as well), most NTMNCs are less dependent on international capital markets. Instead, they frequently rely on internally generated funds or bank loans. Correspondingly, they are less pressed to look for short-term shareholder value. This allows NTMNCs to build up a reserve of slack resources as a financial cushion for the case of unforeseen crises in turbulent markets. Furthermore, NTMNCs frequently can make use of some kind of direct or indirect state financing, including fiscal incentives, financial guarantees and credits from state-owned banks (Goldstein 2007: 98). Particularly, this state involvement is responsible for the fact that many NTMNCs have access to cheaper finance than their competitors (ibid.: 127). Therefore the role national institutions play in promoting the creation of NTMNCs that can compete on the global level must not be understated.

Here a mechanism created by the Brazilian national development bank, BNDES, is a good example. In 2002, the bank established “a special credit line to support OFDI, which is granted on the condition that within six years the beneficiary increases its exports by an amount equal to the credit” (ibid.: 95). This provides evidence of the financial leverage offered to NTMNCs through their national
structures, which helps secure the means to invest as well as access to the
knowledge necessary to guide and successfully choose investments abroad.

(2) Corporate governance

Closely linked to corporate finance is the dominant mode of corporate governance. NTMNCs are not typically dominated by dispersed shareholders and the organized forces of global capital markets, but are rather family-owned or state-controlled. Family and state ownership might even be counted among the “distinguishing features” of NTMNCs (ibid.: 148). The absence of an open market for corporate control helps NTMNCs to avoid the short-term pressures of global capital markets. Only a few companies have chosen to list themselves on triad stock exchanges, examples including Concha y Toro (Chilean) on the New York Stock Exchange and SABMiller (South African) on the London Stock Exchange. Similar observations can be made for a few Russian firms that list in London because of improved legal safety (ibid.: 130).

An increasing number of NTMNCs have begun listing on their home markets’ exchanges, whereby in most of these firms strategic investors (not dispersed minority shareholders) play a key role in steering the company. There is an outstanding number of state-owned and state-controlled companies in mainland China, whereby there is also a special role played by strategic investors in the latter case. This also tends to be the case in nearly all natural resource industries, especially with regard to those in Russia. (Aguiar et al. 2006: 8–9) In conclusion, the corporate governance of NTMNCs is quite different from those of LME and is rather based on insider control, including some parallels with CME. Moreover, “…different corporate governance rules and behaviors, especially in case of state-owned and family-controlled companies, respectively, means that EMNCs [Emerging Market Multinational Companies] may have less trouble and more flexibility in accessing capital than listed MNCs that are restricted by the volatile will of shareholders, market regulators, or analysts” (Goldstein 2007: 146). In a similar vein, numerous Asian NTMNCs are supported by inter-personal networks particularly based on ethnic ties (ibid: 117–22); these networks reduce information costs by the provision of trust and other forms of (social) capital. Among the most well-known of these networks are the Chaebol in South Korea and the Guanxi Chixe in Taiwan (Feenstra and Hamilton 2006).

(3) The pattern of industrial relations

The international business literature that dominates the debate on NTMNCs has not given much attention to industrial relations. However, from what is available in terms of information we have to highlight the weak role of organized labor, e.g. in terms of the overabundance of human capital and flexible production systems. As a result, many NTMNCs rely on human capital rather than machinery. A low-cost workforce not only benefits Chinese NTMNCs that base their business model on price competition in mature industries, but also Korean and Taiwanese NTMNCs
that have made extensive use of low labor costs elsewhere in the region (Goldstein 2007: 76–78).

(4) The education and training system

Given the still somewhat inferior level of technological innovation of many (though not all) NTMNCs, they continue to heavily rely on large-scale public investment in skill formation and establishment of public research institutions (Goldstein 2007: 95; Ramamurti 2008). For example, the success of the pharmaceutical industries in India, as well as the computer and software industries, would not have been possible without the presence of institutions set up by the Indian government across the country which strongly support the training and education of the future workforce.

(5) The transfer of innovations within the economy

As an increasing number of NTMNCs are becoming innovators in knowledge and technology, it is indeed crucial to look at the significant role socio-economic institutions have played in patterning the manner in which innovations are transferred in an economy. Indeed, as in the other institutional spheres, the socio-economic institutions supporting the transfer of innovation within non-triad economies are not homogeneous. Nevertheless, in the midst of heterogeneity, there is indeed one quintessential element that is similar across the board in all non-triad economies, namely the role of the state in supporting the transfer of innovations within the economy.

In Taiwan, for example, a public laboratory was created to push small firms to collaborate within an R&D consortium. The consortium receives a considerable amount of funding from private organizations, government ministries, trade associations, as well as the public research institute Industrial Technology Research Institute (Mathews 2004: 42). In comparison, in India, the government has set up a number of R&D programs in order to encourage innovation specifically in IT and business solutions as well as in the pharmaceutical and biotechnology industries.

In more general terms, the latecomer status of NTMNCs is responsible for their strong focus on inter-firm cooperation (partnerships, joint ventures) for the spread of innovations, since these networks provide a crucial mode for the acquisition of technology (Goldstein 2007: 119). In a later stage of development, NTMNCs use acquisitions – in particular in countries of the triad – in order to improve their innovative capacity (ibid: 2).

Generally speaking, NTMNCs have often grown in an environment in which a rather generous version of competition policy was applicable to domestic firms in comparison to the more stringent competition policy applied to foreign firms, something which still remains a reality across many of the non-triad economies. Indeed, while some variations between non-triad economies exist, a significant portion – particularly in Latin America and East Asia – have used competition
policies to support NTMNCs (ibid.: 99–104) through the creation of “national
champions” and the consolidation of industries, even the creation of national
monopolies, not only for the transfer of innovation in the economy, but also to be
able to accumulate extra profits on the national markets in order to invest abroad.

(6) The regulatory environment and the role of the state

Generally, support by the state and its public policies have been crucial factors
for NTMNCs, as already discussed regarding financial support, innovation and
competition policies. To be sure, these three areas do not by any means exhaust
the list of public support measures for NTMNCs. Other factors consist of lax
property right enforcement, stringent inward investment regulation, regulatory
policies (e.g. post-privatization) or public support for access to natural resources.

Some NTMNCs have developed competitive advantages due to operational
experiences in difficult institutional environments within their home markets. In
particular, “multilatinas” have superior knowledge of policy innovations such as
public–private partnerships that have been important during post-privatization
regulatory politics (Goldstein 2007: 3, 69). NTMNCs have learned the rules of
the trade before they were introduced in the triad and thus have been empowered
with an imperative competitive advantage. As an example, Goldstein has pointed
out that public service companies from Latin America were confronted with pro-
market regulatory regimes (enforced by the Bretton Woods Institutions) while
companies in the triad were still state-owned monopolies and therefore were at a
disadvantage when competing with NTMNCs in third country markets.

In addition, national resource companies, particularly in the oil sector, rely on
direct state support in getting access to new resources. “Political considerations
have traditionally played a key role in driving deals and determining contractual
conditions in the extraction industries” (ibid.: 105). China in particular frequently
uses its economic diplomacy, including the provision of development assistance,
to support its NTMNCs, for example by tying development assistance to the
use of Chinese companies (ibid.: 76f). Chinese NTMNCs are also infamous for
rather aggressive searches for natural resources, including in “unsavory markets
where more socially responsible companies fear to tread” (Pegg 2003:103, cited
by Goldstein 2007: 105).

In general, “there is no doubt that many EMNCs have closer ties with
their governments than their OECD peers” (Goldstein 2007: 150; Ramamurti
2008). We can, thus, with certainty highlight that the state – as an institutional
entrepreneur and institutional builder (Chang 1995: 37) – is more important for
NTMNCs than for multinationals based in either LMEs or CMEs. Throughout our
discussion above we have concretely elucidated the supporting role of the state
in the creation and maintenance of several crucial institutions that have fostered
NTMNCs. And yet, surprisingly, it is here, despite the overwhelming empirical
evidence, where established theories on (triad) MNCs are found wanting and
consequently inefficiently equipped to explain the rise of NTMNCs (Goldstein
2007: 94).
Conclusion

Together, the socio-economic institutions analyzed above contribute to an explanation of the rise of NTMNCs and their competitive advantages. Moreover, these institutions are mutually interdependent: a system of corporate finance relying heavily on state or family ownership works well with a system of corporate governance focused on insider control. Also, the financial cushion built up by many NTMNCs supports their ability to weather potential crises in turbulent regulatory environments. Finally, if we identify competitive market arrangements and formal contracts as characteristic of MNCs in LMEs, and non-market forms of coordination such as inter-firm networks and national or sector associations as typical for CME MNCs, we may identify an important supporting role for the state as the most significant common denominator for NTMNCs.

Implications for global governance: charting future conflict and cooperation potential

In using the VoC approach to contextualize NTMNCs, we have highlighted the domestic political, social and institutional contexts that have conditioned their ascent and shaped their preferences. However, global expansion also entails confronting the international institutions and agreements that govern the global economy. How are NTMNCs mediating this confrontation? What preferences have NTMNCs developed with regard to how the global economy should optimally be regulated? To what extent are current global governance institutions, arrangements and mechanisms broadly in line with the needs and preferences of NTMNCs?

The VoC approach as such is of limited use here. It has been developed with a neglect of the global institutional context. This is hardly surprising, given its background in comparative economic sociology and comparative politics. Thus we need to extrapolate from our findings above how the rise of NTMNCs may affect global governance institutions. In the following, we provide a broad outline that focuses on discussing how the existing global governance institutions have enabled the rise of NTMNCs and on looking at the possible demands of NTMNCs regarding the future evolution of global governance institutions and the potential conflicts with other stakeholders that may arise in this context. In operationalizing this “dependent variable,” we particularly focus on the potential convergence versus a continued divergence in the regulatory preferences of triad-MNCs and NTMNCs.

Moreover, attention is also given to assessing the extent to which NTMNCs are likely to refute the current liberal economic order, inducing a structural shift in favor of a more mercantilist one. Given the recent character of the phenomenon, this section takes a somewhat speculative character.

(1) The financial system

As outlined above, NTMNCs have usually grown through systems of company finance that do not fully cater to the demands of global financial markets. Based on family or state ownership/support, they have maintained a high degree of stability...
and an orientation towards the long term, thereby neglecting issues such as the protection of minority shareholders. Given that most global institutions, such as the IMF, IBRD, WTO or the OECD, are focused on a further expansion of LME-like standards in financial market regulation, we may expect that an increasingly intensive conflict over these issues will turn towards accommodating the needs of global financial markets. Evidencing this is the WTO decision in 2000 deeming the Proex subsidy, created by the Brazilian government specifically to support Embraer, illegal and subsequently forcing the government to abolish the subsidy program. Despite this example, for the time being most of these conflicts are not being played out in the open; that is, as the case of accounting regulation has demonstrated, where NTMNCs do not oppose the dominant global regulation (e.g. by lobbying within the IASB, or not adopting IFRS at all), but rather selectively implement global standards.

(2) Corporate governance regulation

Corporate governance issues are not regulated by a powerful global regime like, for example, the WTO. Instead, these issues are quite loosely institutionalized. Most regulations are in the form of voluntary codes, such as those issued by the OECD. Similar to the issue area of corporate finance, in corporate governance debates we expect that the roles of strategic investors, the state, and controlling families will cause a significant opposition to arise if and when financial market-driven (LME) standards are too forcefully imposed on the global place.

However, the debate might become more complex due to the recent wave of western concerns about the increasing influence of non-triad sovereign wealth funds working within global capitalism. NTMNCs prefer less restrictive takeover regulations, given that they have increasingly relied on brownfield investments in the triad to acquire market access, higher profit margins, brand recognition etc. Nevertheless, some triad governments are increasingly becoming wary of market-friendly standards and have started introducing institutions that protect against takeover by non-triad state funds. Correspondingly, we expect increasing tensions and a growing importance of institutions such as CFIUS (Goldstein 2007: 143).

(3) Industrial relations

In the field of industrial relations, NTMNCs usually are unwilling to accept comprehensive global labor regulation by the ILO, because of the corresponding threat to the low (labor) cost strategy that has helped them to expand. Furthermore, we witness increasing tensions with OECD unions when companies are taken over and local industrial relations models are not respected (Goldstein 2007: 139–40, 143–44). Finally, also in the field of corporate social responsibility, NTMNCs usually are less willing to accept stringent (self) regulation (ibid.: 133). However, there is also the perspective that upgrading CSR activity in the medium term would be possible if more companies strongly participate in global value chains or are directly confronted with (CSR-conscious) western customers (ibid.: 135).
(4) The education and training system

Education and training systems are perhaps least affected by comprehensive global regulation. NTMNCs and their home countries are still rather unrestrained in their strategies. Technical standards remain the primary issue here in terms of international regulation impacting production levels at the firm or national level.

Here we are likely to witness a divergence in NTMNC preferences between firms involved in capital-intensive sectors and those firms that are rapidly becoming involved in more advanced service and technology industries. To date, the former have not pressed for standard specifications; however, as the number of firms active in the latter sector continues to grow they may begin to push for more stringent specifications. Given that technologically advanced industries are critically important in terms of their capacity for uplifting national economic development, these industries may gain an upper hand in dictating the preferences of the group at the international level.

(5) The transfer of innovations within the economy

On the basis of our assumptions about the basic institutions supporting the transfer of innovations for NTMNCs, two issue areas of global business regulation stand out: intellectual property rights (IPRs) and competition policy. In terms of IPRs, regulation through TRIPS and WIPO often coerced non-triad markets into prematurely embedding strict(er) IPR regulation legislatively by 2005, i.e. prior to normative acceptance. Given that many of the current NTMNCs have been enabled to flourish through lax IPR regulation, this will likely remain an area that non-triad governments will contest, as is currently evidenced through lax IPR legislative enforcement in the non-triad (Braithwaite and Drahos 2000; May 2007; Sell 1998, 2003). At the firm level, many NTMNCs are against strict(er) IPR regulations which may inhibit cross-border learning. Nevertheless, as more NTMNCs become involved in industries that thrive on strict(er) IPR regulation, significant contestation may arise not only among NTMNCs, but also between NTMNCs and small indigenous firms in their domestic markets. The former refers to conflicts between those wanting strict(er) IPR versus those against it, something which will be heavily conditioned by the degree to which NTMNCs continue to move up the global value chain (Goldstein 2007: 135).

Regarding global competition policy, we assume most NTMNCs prefer less restrictive policies than those favored by the International Competition Network, which is dominated by triad competition authorities, for two reasons: foremost, so as not to impede inter-firm linkages that allow for the transfer of innovation; and secondly, not to choke government protection of national champions.

(6) The regulatory environment and the role of the state

Trade and other public policies probably will become the most controversial topics within global governance regarding the rise of NTMNCs. Indeed, it is in fact quite interesting to note that during the same time frame of 2001–08 we have
Non-triad multinationals and global governance

witnessed not only numerous failed attempts to conclude the WTO’s Doha round of negotiations, but also a substantial surge in NTMNC OFDI – especially triad-destined OFDI. Indeed, it is quite curious, especially when compared with the experiences of non-triad governments during TRIPS negotiations, and plausible given that NTMNCs have strongly risen in the last eight years, that they have provided their governments with the strength to stick to their guns during international negotiations.

On a more general note, non-triad trade policies have been geared towards sheltering domestic markets to build up NTMNC domestic strength, but also towards providing NTMNCs with the leverage needed to expand into foreign markets. These policies have stimulated aggressive FDI expansion aimed at gaining resources and have supported economic development.

Demonstrating the latter is the fact that between 1995 and 2005, South–South investment increased by $30 billion, from $15 to $45 billion (Santiso 2007: 3). This increase has also been accompanied by NTMNCs becoming a critical driving force pushing South–South cooperation, in schemes such as the Sao Paulo Round of the Global System of Trade Preferences among Developing Countries and the Trilateral Business Council (India, Brazil, South Africa/IBSA). NTMNCs have been key supporters of regional cooperation (ASEAN, Mercosur etc.), something explained by the large number of NTMNCs oriented towards regional and pan-regional expansion. Given the increasing importance of preferential trade and investment treaties (PTIAs), we may expect a change of global trade and investment patterns in favor of more South–South cooperation. However, South–South cooperation on trade and investment matters is at times just as controversial as North–South cooperation, as is indicated by increasing tensions over the role of Telmex and América Móvil in Latin America (Clifton et al. 2007: 17).

Finally, we expect commercial diplomacy to become an increasingly contested issue area within global business regulation, as already witnessed by the geopolitical clashes over oil resources and the increasingly controversial role of China in Africa that may be weakening the leverage of the international financial institutions about their lending countries (Goldstein 2007: 135). Again, these tensions are most obvious in the field of resource extraction, as witnessed by the non-implementation of the OECD Convention on “Combating Bribery of Foreign Public Officials in International Business Transactions,” the “Extractive Industries Transparency Initiative” and the “Publish What You Pay” campaign by many NTMNCs (ibid.: 106). Furthermore, given that Chinese firms have steadily increased their presence in Latin America, whereby “in 2005 the region was the second largest recipient of Chinese FDI” (Santiso 2007: 8), we may witness future conflicts not only between triad and non-triad-MNCs, but also among NTMNCs.

Concluding remarks

In conclusion, our extrapolation (from a VoC perspective) of how potential North–South conflicts are being played out within global governance has not yet led to a clear picture. While we have noted numerous areas where we expect intensified
conflict in the near future, in other areas we rather assume that the preferences of triad-MNCs and NTMNCs may gradually converge. Indeed, we have found several cases where NTMNCs appear to take on similar preferences as triad-MNCs over time. However, we also identified a number of cases where NTMNCs operate in far more close collaboration with national governments than triad-MNCs, thus indicating that the potential push for a more mercantilist form of global governance may be one of the most visible conflicts to come in the future. Which of these trajectories in the end will gain the upper hand is difficult to say at the moment – much more research on NTMNCs and their position towards global governance is needed. While our contribution has not yet provided firm answers, it has presented strategies for developing these answers in the future.

Notes
1 Non-triad multinationals encompass all multinationals located outside the traditional triad (North America, Europe and Japan/Australia). This term has taken precedence over others, such as “emerging market multinationals” or “challenger companies,” given that: (a) it is the least “loaded” per se; and (b) it also incorporates firms from South Korea, Singapore and Taiwan – three economies neither perceived as emerging markets nor as part of the triad. As such, we assume these economies and their firms may have very different preferences with regard to global governance from those of triad MNCs, thereby justifying their inclusion into our overall analysis.
2 “Choice” is being used here to highlight that numerous NTMNC takeover bids in the triad have failed.
3 Examples of ownership-specific advantages include firm size, proprietary technology, trade mark and brand name power, flexible production systems, etc.
4 “How” refers to whether a firm should choose to export, participate in a joint venture, establish a sales subsidiary, establish a manufacturing plant, acquire a pre-existing firm, etc.
5 “Why” can refer to either of the following two things: (1) to reap monetary benefits of an O-advantage; or (2) to augment and strengthen current O-advantages.
6 Ranging from stage 1 to stage 5 relates, for instance, to no outward or inward FDI in stage 1 all the way up to stage 5 in which levels of net outward and inward investment converge (Sim and Pandian 2003; Tolentino 1993).
7 For instance, because of decreasing costs, increasing rents, or when protecting its export markets from local competitors.
8 Referring to things like small scale, input costs, etc.
9 For instance, lower costs associated with labour, raw materials, property, equipment or capital.
10 This has become a particularly conflict-ridden issue area in light of the sub-prime crisis and numerous defaults of western banks which have enabled ‘non-transparent’ sovereign wealth funds to cheaply and rapidly invest large sums in triad markets. Although this conflict has arisen as a result of sovereign wealth funds from China and the Middle East, it is expected that stricter regulations will impact all non-triad markets.
11 One example that has further exasperated these tensions is Taiwan’s Benq, which in 2005 acquired the handset unit of Siemens (Germany) and subsequently closed the subsidiary in 2006. After enough time had passed to leverage all the resources the subsidiary possessed, bankruptcy was declared, and this was done directly after the expiration date of all contracts of the roughly 6,000 workers they inherited.
We do not deal with the utilization of NTMNCs as foreign policy instruments, e.g. the case of Chavez and PDVSA (Goldstein 2007: 107–9).

This research is currently being carried out in a collaborative project involving the authors as well as partners from nine other universities across Europe. By each project focusing on a specific region(s), industry(ies), company(ies) and issue area(s), we collectively aim to establish concretely what implications NTMNCs have had on the multitude of global governance arrangements and mechanisms.

References


Andreas Nölke and Heather Taylor


Non-triad multinationals and global governance


