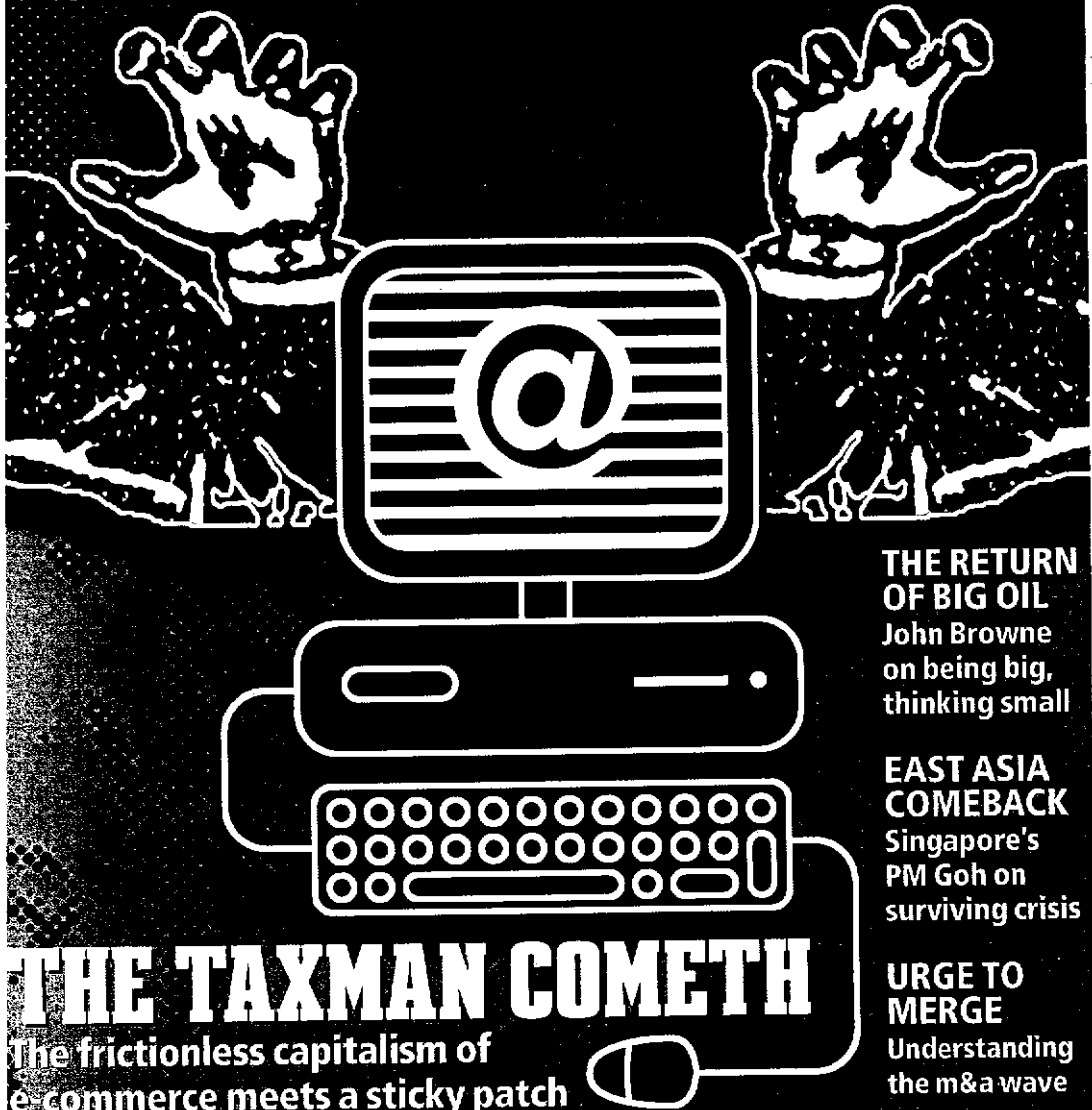


THE MAGAZINE OF THE WORLD ECONOMIC FORUM

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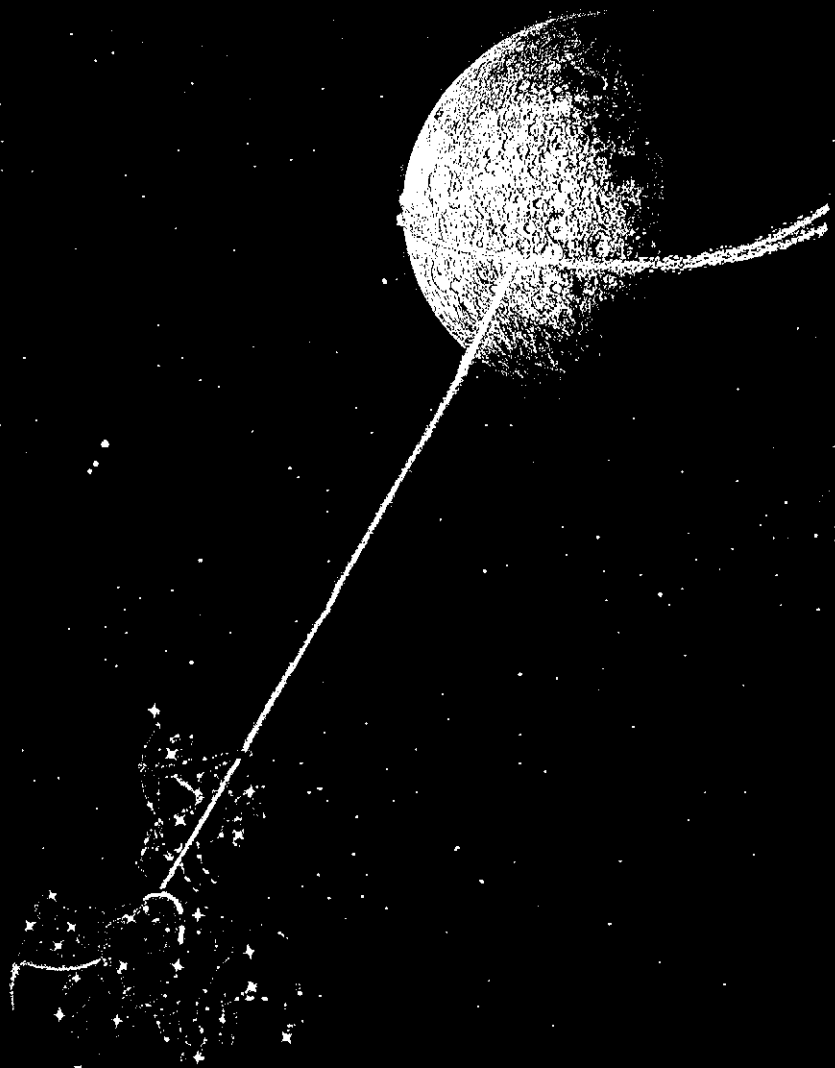
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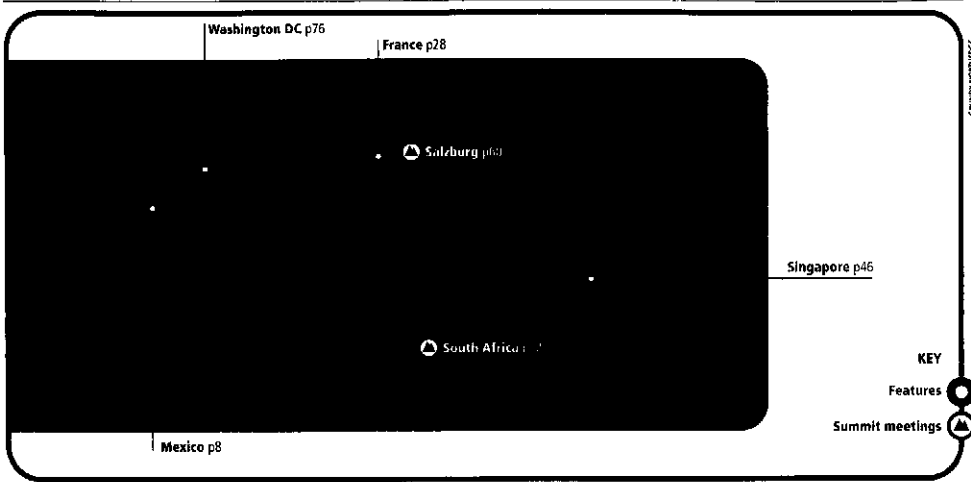
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REVIEW

HIT AND MYTH

THE MYTH OF THE GLOBAL CORPORATION

by Paul N Doremus, William W Keller, Louis W Pauly, and Simon Reich
Princeton University Press, 208 pages, \$16.95

THE MYTH OF THE POWERLESS STATE: GOVERNING THE ECONOMY IN A GLOBAL ERA

by Linda Weiss
Polity Press, 256 pages, \$17.95

REVIEWED BY ROB JENKINS

"However lustily they sing from the same hymn book when they gather together in Davos or Aspen, the leaders of the world's great business enterprises continue to differ in their most fundamental strategic behaviour," *The Myth of the Global Corporation*, p144

Most readers of this magazine know first-hand that Davos summits are not quite as harmonious as Paul Doremus and his collaborators imply. The quotation's second half, however, is even more contentious: Doremus, Keller, Pauly and Reich argue that multinational corporations not only behave differently from one another, but that these differences can be traced to their national origins. MNCs, it seems, cannot shed their cultural baggage any more than individuals can. They may trade internationally and ally with foreign firms, but German MNCs act more like one another than like their Japanese or American counterparts. MNCs from these three states – the focus of this study – may claim to have transcended their roots. This, say the authors, is pure PR – hence the title of their surprisingly jargon-free book.

The myth they want to debunk is that of convergence: the notion that footloose MNCs are becoming increasingly alike, forcing states to adopt uniformly market-friendly policies. The key observation is that variation, not uniformity, remains the rule for both states and firms.

National regulatory systems, rooted in historically contingent national ideologies, account for persistent differences in MNCs' investment

strategies, R&D expenditure patterns, and other core functions. State policy continues to matter, which gives states far more leverage than globalisation theorists appreciate.

The authors acknowledge that they are not the first to highlight the existence of distinct species of capitalism. Differences in business-government relations between the US and other countries have long been a subject of academic enquiry and, outside America, angry polemic. The US system has been described by critics (and some admirers) as red-blooded capitalism, particularly during the asset-stripping binge of the 1980s.

America's economic rebound in the 1990s has muted this criticism, while the failure of Japan's economy to grow, and Europe's to generate sufficient employment, has dented the image of the main alternatives. Doremus and his collaborators have labelled the three models US "free enterprise liberalism", German "social partnership" and Japanese "technonationalism", but appreciate the hidden nuances. The wild west of America's cowboy capitalism, for instance, does not always imply laissez-faire. The anti-trust sheriff sometimes has to impose order on Dodge City.

The authors would likely agree with the distinction recently made by Edward Luttwak, senior fellow at the Center for Strategic and International Studies: "In Britain, Bill Gates would have been Lord Gates by now, and he would be able to do anything he wants. In Italy he would have become senator for life. If Microsoft was French, every French embassy would be at the service of Microsoft. But in the US, the Department of Justice grips the throat of Microsoft and doesn't let go".

But the analysis lies beyond mere categorisation. The objective is to show how a nation's variant of capitalism influences the behaviour of its MNCs. The case is often intriguing, but clearly hamstrung by crucial gaps in the relevant data. Alarmingly, the authors proceed as if this didn't matter. Consider, for

instance, their claim that intrafirm trade patterns vary among American, German and Japanese MNCs. Instead of noting that the data reveal how remarkably alike Japanese and German MNCs behave in this respect, which would contradict their main contention, they employ inappropriate data to contrast Japanese and German ratios with those of American MNCs.

The fact that the ratio of finished to unfinished goods traded between American MNCs and their subsidiaries in Germany is lower than the ratio for German MNCs and their US-based subsidiaries tells us exactly nothing about the link between home-country economic institutions and MNC behaviour. Why? Because the policies of host countries could affect MNC trading decisions as much as their home environment, and the authors' data does not allow them to control for this.

One can sympathise with their dilemma: data exists on foreign firms in the US, and US firms abroad, but not on German, Japanese, and US firms in a fourth country, where the host environment could be held constant. But for them to ignore the implications this has for their argument is inexcusable. To make matters worse, this data is not disaggregated by industrial sector.

This is critical: some countries' MNCs are concentrated in sectors that lend themselves to the export of finished goods. Sectoral bias could thus explain behavioural differences better than the variable of nationality. The authors clearly grasp this: elsewhere in the book they break down the data by sector. But when data necessary to support their conclusions is unavailable, they resort to arguing by assertion.

COUP D'ÉTAT

Linda Weiss is also in the debunking business. The target of her well-crafted book is another mythological beast – in fact the flip side of the global corporation: the powerless state, whose authority has been siphoned away by disembodied market forces operating beyond the

Multinationals are getting bigger and more alike at the expense of withering national governments, or so the theory goes. Rob Jenkins reviews two books that set out to separate myth from truth

control of government. Not surprisingly, Weiss's analysis has much in common with that of Doremus et al. But instead of focusing on variations in MNC behaviour, she stresses the continued ability of governments to adapt to what she admits are profound currents of technological change.

Her point is that while increased interdependence poses many new challenges, they are not uniform in their impact. Nor is state response. She thus contrasts the idea of convergence – things, ideas, and places becoming more alike – to that of variance, particularly the capacity of states to adapt to the social, economic and political upheavals which a more interconnected world will continue to generate.

Weiss is strong on clarity and structure. She addresses what she calls the Question of Magnitude ("how big are the changes?"), the Question of Distribution ("how global are trade and investment patterns?"), and the Question of Mobility ("how transnational are multinationals?").

Weiss' other strong suit is history. Like earlier treatises on the subject, notably Paul Hirst and Grahame Thompson's *Globalisation in Question*, she suspects that much of what is trumpeted as new on today's international scene has actually been



around for some time. She labels this the Question of Novelty. ("how unprecedented are international flows?") and adds a new twist by ingeniously identifying the many ways in which we have romanticised the pre-globalisation state – most crucially by overstating the extent to which it ever exercised unrestricted sovereignty. The implication: that constraints on state action are nothing new and that states will, as they always have, find ways of adapting to new forces.

Weiss, however, risks becoming the victim of her own logic. While theorists have clearly exaggerated the state's earlier autonomy, Weiss may be overstating its current capacity to adapt. Ironically, like the authors of *The Myth of the Global Corporation*, she constructs her case around the recent experiences of Japan and Germany. But Japan seems most notable for its refusal to adapt, except at the margins. Where Germany has adapted, it has done so mainly at the behest of the EU. And there are signs that American-style mergers are taking root in European soil. Weiss is on shaky empirical ground.

One can agree with Weiss that many politicians find it convenient to feign impotence in the face of globalisation – and that many theories of globalisation are mainly hot air – and yet still find disturbingly naive her faith in the capacity of existing political entities to become "catalytic" states. (By that she means those which, "achieve their goals [...] by assuming a dominant role in coalitions of states, transnational institutions and private-sector groups". How many states in today's developing world can reasonably expect to play such a role? In the process of exploding one myth, Weiss is in danger of creating another. ■

CHOICE



George Kennan, the grand old man of US Cold War foreign policy, coined the phrase "history of the present" to describe the kind of writing historian Timothy Garton Ash has been doing for the past decade. It is also the title that

Garton Ash gave to his latest book, *History of the Present* (Allen Lane, £20), a collection of essays and despatches from Europe in the 1990s.

Garton Ash has witnessed many of the most dramatic events in Europe since 1989 – from the "revolutions" (reform and revolution), as he calls them, on the streets of Central Europe, to the bloody violence in the Balkans – and the book recalls them in rich detail.

His narratives are also interwoven with a detailed chronology of events in both western and eastern Europe which underscore one of his

central points: Brussels was too busy fussing over EMU to notice that people were killing one another in the Balkans. As Nero fiddled, Rome burned. One could say, but not all of the essays are doom and gloom.

As he wryly noted of a conference held in Oxford in 1992 devoted to the then-Czechoslovakia's political difficulties: "The Czechs talk grandly about civic principle. The Slovaks talk bitterly about the way they have been exploited in a shared state. Then they all slip away to do their Christmas shopping together at Marks & Spencer."