

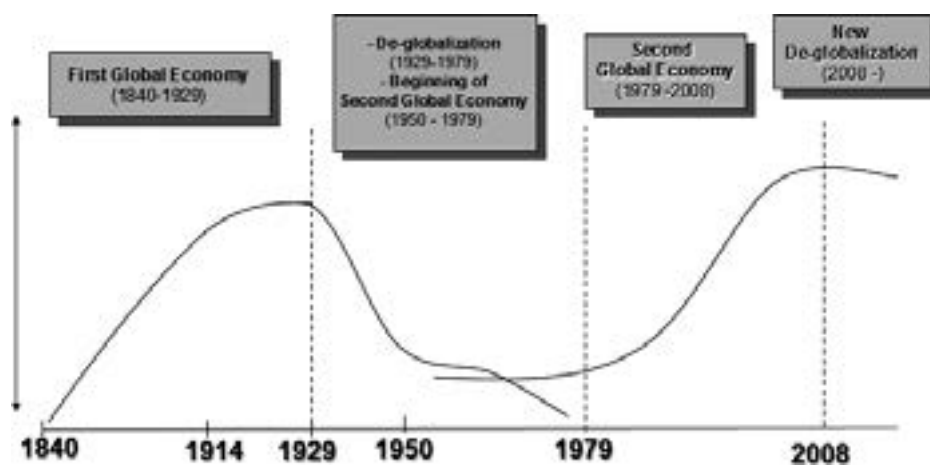
Global Business over Time

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This article surveys the current state of research on the origins and development of global business. Since the middle of the nineteenth century, firms have been the strongest institution to operate across national borders. Multinational firms, defined as firms owning and controlling assets in more than one country, have been major drivers of the trade and capital flows which have characterized the globalization waves since the middle decades of the nineteenth century (Jones, 2005; Jones, 2014).

Figure 1 provides a visual representation of these globalization waves. The metric of cross-border integration aggregates capital, trade and migration flows.

Figure 1. Globalization Framework



Source: the author

It should be emphasized that Figure 1 is a pictorial representation of the overall

historical pattern. It makes no claim to be based on statistical estimates—it would be challenging to formulate a data series which combines trade, capital, and migration. It does not claim that there was zero international trade, capital flow or migration in 1840. Indeed globalization could be legitimately traced back to when homo sapiens migrated from Africa about 80,000 years ago. (Jones, 2013) Rather the point is that from 1840s the scale of international trade, capability, and migration intensified, increasingly integrating different regions of the world (Bordo, Taylor and Williamson, 2003).

The first wave of globalization stumbled during World War I. There were new controls on trade. The Gold Standard was suspended. A surge of racism resulted on ethnicity-based restrictions on migration flows in the United States, Australia and elsewhere. The Wall Street Crash in 1929 resulted in the collapse of the first global economy as tariffs and exchange controls massively reduced capital and trade flows. While international trade increased again from the 1950s, migration and capital movements remained subdued until the end of the 1970s. Large parts of the world, including the Soviet Union and the People's Republic of China, excluded global firms and international trade. Subsequently capital flows and international trade rose very quickly, although migration flows were much less. This second global economy was ended by the global financial crisis in 2008. Enhanced regulations, a huge increase in non-tariff barriers, and other restrictions resulted in trade and capital flows becoming subdued. Within a decade anti-globalization populist movements had come to power in multiple countries entirely changing the policy context in which global firms worked.

The following five sections will consider the role of global firms in each of the chronological eras of globalization. A final section concludes.

Global Business and the First Globalization Wave 1840–1929

From the mid-nineteenth century thousands of firms, largely based in Western countries which had experienced the Industrial Revolution, established operations in foreign countries. Merchant houses and banks were among the first businesses to become multinational. The search for raw materials and food led firms abroad too. The first instances of multinational manufacturing included small Swiss cotton textile firms in the 1830s (Jones and Schröter, 1993). The phenomenon intensified from mid-century. Multinational manufac-

turing was stimulated by the spread of protectionism from the late nineteenth century. Firms were able to “jump” over the tariff barriers which blocked their exports by establishing local production. This strategy was prominent in industries such as chemicals, machinery and branded consumer products.

As Table 1 shows, foreign direct investment (FDI) rose to a percentage of world output which it would not reach again until 1990. These firms drove the rapid increase in trade flows during this era. Latin America and Asia were especially important as host economies, attracting well over half of the total world stock of foreign direct investment. Possibly one half of world FDI was invested in natural resources, and a further one-third in services, especially financing, insuring, transporting commodities and foodstuffs (Wilkins, 1970; Jones, 2005a; Dunning and Lundan, 2008).

Table 1. World Foreign Direct Investment as a Percentage of World Output 1913–2010 (%)

1913	1960	1980	1990	2010
9.0	4.4	4.8	9.6	30.3

Source: Jones, 2014.

The firms of different countries varied in their propensity to invest abroad. Britain alone was the home of nearly one half of world FDI in 1914, and the United States and Germany accounted for a further 14 percent each. Firms from a number of small European countries, especially the Netherlands, Sweden and Switzerland, were very active internationally (Jones and Schröter, 1993). During the first global economy, the fact that the majority of FDI was in natural resources and related services, meant that the biggest host economies were countries of recent settlement and primary producers in the periphery. A listing of the ten largest host economies in 1929 included India, Cuba, Mexico, Argentina, Chile, Malaya and Venezuela. FDI in these countries was overwhelmingly in resources and services. Manufacturing FDI went to three other countries—Canada and the United States in first and second place, and Britain in eighth place. Canada and the United States also attracted considerable FDI in resources (Wilkins, 1994).

The spread of global firms rested crucially on the overall political economy of the period. The expansion of Western Imperialism over much of Asia and Africa, the spread of an international legal system and legal norms which enforced contracts and private property rights, numerous trade treaties, and the international Gold Standard, reduced the risks

of doing business abroad, primarily for firms from the West. After tariffs rose in the United States and Europe from the middle of the nineteenth century, business enterprises “jumped” over them to create multinational manufacturing operations (Magee and Thompson, 2010; Fitzgerald, 2015). Access to capital was facilitated by the growth of large globally-oriented capital markets in London and elsewhere. Trading in commodities was facilitated by the rapid growth of futures markets in the second half of the century. Transport and communication innovation was vital too. The advent of steam driven railroads from the 1830s, and faster sailing ships and then steamships, shank geographical distance. The discovery of the principles of electricity was vital too. It permitted the revolution in communication costs caused by the invention of the electric telegraph. Although the impact of the telegraph was not immediate, as submarine technology was so expensive it was mainly used by governments and large firms. (Müller, 2016). Over an extended period time it became fundamental in enabling the boundaries of firms to expand, inside countries and then over borders. It made formal managerial control over distant operations much easier (Jones, 2014).

The growth of global firms was enabled by innovation in organizational structures which reduced the risks of operating internationally. There was constant experimentation with organizational design, and the organizational forms employed were heterogeneous. As described by Chandler, the nineteenth century saw the creation of large firms with managerial hierarchies (Chandler, 1962; Chandler, 1977; Chandler, 1990). Many began as small entrepreneurial ventures, but a handful became global giants. Singer Sewing Machines was one example. By 1914 it accounted for 90 percent of the sewing machines built in the world. Singer’s development of installment plans and direct selling enabled millions of relatively low income consumers from Russia to Japan to purchase the machine (Carstensen, 1984, Godley, 2006; Gordon 2011).

Singer, and other large firms such as Standard Oil and Lever Brothers, co-existed with numerous small and family-owned firms. European firms, especially from smaller economies such as Sweden, made foreign investments at early stages of their corporate lives (Olsson, 1993). Thousands of “free-standing” firms, which conducted little or no business in their home economies, were established in Britain and the Netherlands especially, exclusively to operate internationally (Wilkins and Schröter, 1998). These free-standing firms were once seen as inferior to US-style managerial hierarchies. In her path-breaking article on the subject, Wilkins observed their “high mortality rate” and the managerial challenges

of a “tiny head office. (Wilkins 1988, pp. 271, 277). However subsequent research found them to have often been robust, employing socialization methods of control in place of formal bureaucracy. In many cases free-standing firms were not genuinely free-standing at all, but formed parts of clusters of businesses, or business groups organized around trading companies (Jones, 1998, 2000).

Merchant networks established by *diaspora* communities were also important drivers of global business. The Greek *diaspora* spread over the Mediterranean, and Russia was active in wide-ranging international commercial and shipping business, creating a cosmopolitan business network based on kinship ties extending over central Europe and even reaching France and Britain (Minoglou and Louri, 1997). In Asia, Chinese and Indian commercial *diaspora* operated within and between European empires (Brown, 1994, 2000; Fitzgerald, 2015).

The minority of firms which survived the challenge of global operations long enough to build viable businesses drove globalization by creating trade flows, constructing marketing channels, building infrastructure, and creating markets. By 1914 the production or marketing of most of the world’s mineral resources was controlled by US and European firms. Foreign firms also dominated the production and marketing of renewable resources including rubber, tropical fruits and tea. A high proportion of world trade in primary commodities was intra-firm. The commodity chains created by these firms were fundamental actors in the process of world economic integration. (Topik, Marichal, and Frank, 2006)

Much of the infrastructure of the global economy—the telegraph, ports, railroads, and electricity and gas utilities—was also put in place by international business enterprises (Hausman, Hertner, and Wilkins, 2008; Geyikdagi, 2011; Fitzgerald, 2015). International shipping companies carried the world’s oceanic trade and moved millions of people (Harlaftis and Theokokas 2004; Munro 2003). Trading companies both facilitated and created trade flows between developed and developing countries, often investing in creating plantations and opening mines, and the processing of minerals and commodities. (Jones, 1998, 2000; Jonker and Sluyterman, 2000) European overseas banks built extensive branch networks throughout the Southern Hemisphere and Asia, and financed the exchange of manufactured goods for commodities (Jones, 1993).

World War I was a major economic and political shock for global firms. The expropriation of German-owned affiliates by US, British and other Allied governments not only

virtually reduced the stock of German FDI to zero, but also signaled the end of the era when foreign companies could operate in most countries on the same terms as domestic ones. The Russian Revolution in 1917 resulted in France and Belgium losing two-thirds of their total foreign investment. (Jones, 2013; Fitzgerald, 2015).

Yet multinational investment resumed during the 1920s, even if short-term and speculative capital flows became much more prominent in the world economy. The giant American mining company the Guggenheim Brothers made very large investments in Mexico, Chile and elsewhere. There were large foreign investments during that decade by US automobile manufacturers Ford and General Motors. The Swedish Match Company, led by Ivar Kreuger, consolidated the fragmented match industry and by 1930 controlled 40 per cent of the world match market. By then the company also owned other Swedish multinationals, including the electrical company Ericsson, ball bearing manufacturer SKF and the mining company Boliden. Yet the experience of Swedish Match also reflected the new fragility of the global economy. After the mid-1920s, the company raised capital on the Americans stock exchange and lent it to sovereign governments in Europe and elsewhere unable to finance their deficits in the capital markets. In 1932, after Ivar Kreuger's suicide, it was discovered that Swedish Match's growth had rested on systemic accounting fraud. (Jones, 2005)

The impact of these global firms was considerable. Multinational manufacturing companies transferred products and brands across borders during this era of fast globalization. Bayer introduced the aspirin to the United States. There were hundreds of other examples. (Wilkins, 1989) Firms which built factories in foreign countries transferred new techniques and work practices. Beginning with a factory in Glasgow, Scotland, in 1867, Singer took mechanized sewing machine manufacture around the world. In Tsarist Russia, it built the largest modern engineering factory in the country, employing German and British managers to supervise both the production process and new methods of labor management. (Carstensen, 1984). Companies also transferred the values behind brands. For example, the international growth of the beauty industry drove a worldwide homogenization of beauty ideals and practices. The features and habits of White people became established as the benchmarks of global beauty (Jones, 2010).

Technology transfer was not limited to multinational manufacturing. The establishment and maintenance of mines, oil fields, plantations, shipping depots, and railroad systems

involved the transfer of packages of organizational and technological knowledge to host economies. The Guggenheims moved mining technologies developed in the United States to their businesses in Mexico and Chile. They also collaborated with other mining companies, such as Sweden's Boliden, to exchange technology (Bergquist and Lindmark, 2016). Given the absence of appropriate infrastructure in many countries, foreign enterprises frequently not only introduced technologies specific to their activities, but also social technologies such as police, postal and education systems (Jones, 2000). In some cases they created entire towns: an example was Ford Motor Company's ultimately unsuccessful Fordlandia started in Brazil in 1928. (Wilkins and Hill, 1964, pp. 169–70, 176–8, 184) The building of transport and distribution infrastructure enabled entrepreneurs to access world markets for the first time. In so far as access to markets had been a constraint on capitalist enterprise in many parts of the world, this relieved it. However there were also huge costs. The movement of crops and plants around the world resulted in massive losses of biodiversity and other environmental damage beginning a process of environmental degradation which has yet to be reversed. (Jones, 2017)

There was, therefore, considerable potential for global firms to facilitate the closing of the wealth gap which had opened up as Western Europe and North America underwent industrialization from the nineteenth century, whilst the rest of the world did not, and lost once large craft industries. In practice, this did not happen, except in isolated incidences. Knowledge spillovers from multinational investment to the non-Western world were limited. Technological diffusion worked best when foreign firms went to a country with the institutional arrangements, human capital and entrepreneurial values to absorb transferred knowledge, much of which was tacit and not readily codified (Bruland and Mowery, 2014). Consequently, while the first global economy saw multinational firms become the conduits for significant technological and organizational transfers from the United States to Western Europe, and Western Europe to the United States, their role in transferring knowledge and capabilities from the West to the rest of the world was more modest. Global firms can be seen as part of the explanation for the convergence of technologies and incomes within the West, and the lack of convergence between the West and the rest. (Harley 2014).

Both the strategies of global firms and their management practices contributed to this situation. Most FDI in developing countries was in resources and related services. These natural resource investments were highly enclavist. Minerals and agricultural com-

modities were typically exported with only the minimum of processing. This meant that most value was added to the product in the developed economies. Foreign firms were large employers of labor at that time. However, expatriates were typically employed in the higher skill jobs (Piquet, 2004). As a result, the diffusion of organizing and technological skills to developing host economies was far less than to developed economies. Certainly some developing countries, such as Mexico, experienced significant economic growth before World War I, as foreign firms developed and exported minerals and commodities, and built the railroads and ports that allowed them access to foreign markets (Allen, 2014). However on the whole, and with exceptions, Western firms in Mexico were not significant agents of technological diffusion into the domestic economy, given the formidable institutional, social and cultural roadblocks in face of the transfer of technologies from advanced economies (Beatty, 2003, 2009).

In the broadest sense, many of the gains from the first global economy had not been evenly shared. This was most clearly seen in the cases of the huge natural resource concessions which colonial regimes and assorted dictators had granted to Western firms. In order to entice firms to make investments in mines, railroads, and so on, foreign firms were often given large, long-term and tax-free concessions by governments in Latin America and elsewhere. These concessions turned Western companies into supporters of repressive governments, and associated Western capitalism with dictatorships and colonial regimes. (Jones, 2013) Global capitalism had flourished within the context of Western colonialism, and became associated with the political and racial injustice of such regimes. In interwar India, for example, Gandhi's campaign against British imperialism encompassed a wider criticism of global capitalism as a whole (Tripathi, 2004; Nanda, 2003).

During the last decades of the first global economy income gaps increased not only between the West and the Rest, but also within countries. Global firms were significant drivers of this story. As commodity exports surged in Latin America, income inequality soared as the owners of land became wealthy (Williamson, 2010). Meanwhile mining and other extractive Western companies employed thousands of local people typically paid low wages and offered few avenues for improvement. The creators and owners of large global corporations in the United States (and Europe) also became hugely wealthy. This contributed to the huge rise in income inequality seen evident by the early 1900s (Piketty, 2014). Inequality and unfairness prompted the growth of labor movements and socialist parties. In 1917

the Bolsheviks seized power in Russia, and proceeded to abolish capitalism. Global firms such as Singer Sewing Machines and Shell lost their large assets in the country.

Global Business in the Era of De-globalization 1929–1979

Global firms encountered numerous challenges after 1929 as liberal policy regimes gave way to numerous government restrictions on trade, capital flows, and migration. If the management of geographical distance had been a major managerial challenge before the 1920s, the management of governments and their policies rose sharply up corporate agendas subsequently (Jones and Lubinski, 2012). Between 1929 and 1938 the real value of world exports declined by 9.4 per cent. By the end of the 1930s half of world trade was affected by tariffs. There was no recovery to 1929 levels until after World War II. The integration of world markets went into reverse (Fitzgerald, 2015).

This changed policy regime happened despite the fact that transport and communication innovations continued to reduce the costs of geographical distance. Telephones and automobiles became items of mass consumption, especially in the United States. Air travel became quite widespread, if costly. The advent of cinema and radio also provided unprecedented opportunities to see lifestyles real or imagined elsewhere, and facilitated the further diffusion of cultural influences (Grazia, 2005). Yet as technology facilitated human beings to travel and observe one another as never before, so they disliked what they saw. Nationalism and racism proliferated. Governments sought to block foreign companies, alongside foreign imports and capital flows, and immigrants.

The nationality of firms rose rapidly up political agendas after World War I, and receptivity to foreign firms did not recover after the end of the war. Although the United States shifted from being the world's largest debtor nation to being a net creditor over the course of the World War I, this was accompanied by a growing nationalism which resulted in major restrictions on foreign ownership in shipping, telecommunications, resources and other industries (Wilkins, 2002; Wilkins, 2004). The world became, and remained, much riskier for firms crossing national borders.

After the end of World War II, the spread of Communism, decolonization and subsequent growth of restrictions on foreign firms, and widespread nationalization of foreign-owned natural resource investments in the developing world, combined to dramatically re-

duce foreign investments beyond the West. By 1980 the six largest hosts for FDI were the United States, Britain, Canada, Germany, France and the Netherlands. Brazil, the first developing economy was in seventh place. Australia, Indonesia and Italy followed (Dunning and Lundan, 2008; Jones, 2014).

Although capital flows, trade flows and migration flows all fell sharply, global business did not disappear during these decades. A number of nationalistic regimes blocked new foreign investment, and squeezed existing foreign-owned businesses. However, Nazi Germany, while it used exchange controls to block profit remittances, exercised few restrictions on foreign businesses beyond requiring that they excluded Jews and others considered undesirable from the management of affiliates in Germany. As a result, US and other foreign firms such as General Motors and IBM were able to sustain growing businesses, albeit ones whose profits they needed to plough back into their German operations, and as a result contribute to strengthening the Nazi state (Wilkins, 1974; Turner 2005). Meanwhile consumers in Nazi Germany continued to watch the same Hollywood movies and purchase the same American cosmetic brands, as their counterparts in the United States (Grazia, 2005; Jones, 2010). More generally, the ability of multinationals to finance their subsidiaries by ploughing back profits, or lending from local banks, meant that their businesses were much less impacted by the interwar collapse of capital flows than might have been expected.

Business enterprises were more robust than an aggregate view of markets would suggest. From the perspective of firms, globalization was constrained rather than totally reversed. During the 1920s German firms rebuilt international businesses (Jones and Lubinski, 2012). In interwar Great Britain, as elsewhere, there were significant divestments as manufacturing multinationals closed down their affiliates, but there were at least as many new entrants (Bostock and Jones, 1994; Jones and Bostock, 1996). US and other firms in fast-growing consumer products such as automobiles—and component industries such as tires—invested heavily in manufacturing in foreign markets (Fitzgerald, 2015). There were strong continuities, rather than massive disruption, in the global maritime world of shipping, trading and ports (Miller, 2011). Despite an era of falling commodity and mineral prices, multinational companies made vast investments developing new sources of supply, such as copper mines in east Africa and the Belgian Congo, and petroleum in Venezuela (Jones, 2005a).

Numerous international cartels strove to regulate prices and output on a global scale. By the 1930s a high percentage of world trade was controlled by such international

cartels. In manufacturing, the world electric lamp cartel controlled three-fourths of world output of electric lamps between the mid-1920s and World War II (Reich 1992). Commodities such as oil, tin and tea saw wide-ranging and quite long-lasting international cartels. While they may be seen as part of the story of growth-retarding institutions during this era, it is evident that most cartels were rarely able to control them for too long before new competitors appeared, unless they were strongly supported by governments. More importantly, however, they were often not agents of de-globalization. They often represented competition by another means rather than the elimination of competition altogether. They were sometimes powerful actors in the transfer of knowledge and intellectual property across borders (Fear, 2008).

Global firms faced much greater restrictions after World War II. The Communist states of the Soviet Union, eastern Europe and China excluded capitalist firms from their borders. The Communist world resembled an “alternative” global economy, but one without capitalist firms, at least until the deterioration of political relations between China and the Soviet Union halted attempts at economic integration (Kirby, 2006). Yet, even here, global firms kept marginal presences. In consumer products such as hair care, Western firms sold ingredients to Soviet and other eastern European state-owned firms from at least the 1970s, and sometimes licensed their technology also (Jones, 2010).

Leaving aside the Communist countries, much of the world restricted or banned foreign companies in some or all industries. In European and many other developed countries, tight exchange controls enabled governments to vet or sometimes prohibit investments from other firms. In major European economies such as France, Britain and Italy, large swathes of industry were nationalized and taken out of capitalist control, domestic or foreign. The United States was broadly more open to foreign firms, although they were blocked from sectors considered strategic, including defense, airlines and broadcasting (Wilkins, 2002).

In the postcolonial world, the restrictions on global capitalism were much greater. In both Africa and Asia there was widespread restriction and expropriation of foreign firms. Entrepôts and colonial outposts which remained open to foreign multinationals, such as Singapore and Hong Kong, experienced rapid economic growth, although their equally successful “Newly Industrializing Countries” (NIC) counterparts South Korea and Taiwan adopted Japanese-style restrictions on wholly-owned foreign companies. During the 1970s Western

firms lost ownership of much of the world's natural resources, as Middle Eastern and other governments expropriated assets. Within the non-Western world, there was enormous concentration of FDI flows. In Asia, there was no FDI in China, and almost none in Japan and India (Jones, 2005a).

Global Business and the Origins of the Second Global Economy 1945–1979

After World War II ended, global firms made significant contributions to the reconstruction of a global economy. Service firms such as management consultants, advertising agencies, hotels and film distributors served as significant conduits for the international diffusion of American management practices, values and lifestyles (West, 1987; Quek, 2012). However their activities involved limited capital investment compared to manufacturing or mining. This meant that their growing importance could not be captured by FDI figures. This was one reason why levels of FDI remained well below their pre-1914 peaks.

As US management consultancies, such as McKinsey, globalized from the late 1950s, they both created and served markets for consultancy services. They diffused managerial best practice from the United States, initially primarily to Western Europe where they opened branches (Kipping, 1999; McKenna, 2006). Trading companies developed global networks exploiting information asymmetries. Japan's general trading companies (*sogo shosha*) survived their dismantling by the Allied occupation after World War II to become the central drivers of Japan's foreign trade and FDI (Yonekawa, 1990).

Long-established European trading companies, many of whom had had their businesses devastated during the war, were also rebuilt and re-invented. Jardine Matheson and Swire, for example, lost their substantial assets in China after the 1949 Revolution. However they developed new businesses in the British colony of Hong Kong and elsewhere in the region, building and operating ports, wharves, and shipping companies, and creating airlines. Swire's development of Cathay Pacific created, by the 1960s, a major airline which facilitated regional economic integration (Jones, 2000).

Shipping firms were especially important actors in the postwar growth boom. They carried the bulk of international trade, including much of the energy, raw materials and food that the Western world and Japan required. A new generation of Greek ship-owners, headed by Aristotle Onassis and Stavros Niarchos, built new bulk shipping companies, taking advan-

tage of regulatory arbitrage opportunities by, for example, registering ships using flags of convenience, and basing themselves in tax havens such as Monaco (Harlaftis, 1993, 2014).

Multinational banking also assumed a new importance (Jones, 1993). As British overseas banks and US banks took advantage of the Bank of England's liberal policies towards foreign exchange markets during the late 1950s, the development of the Eurodollar markets in London provided a dynamic new source of funding for global capitalism. In the interests of financial stability, governments had sought to tightly regulate their financial markets since the Great Depression, and had separated them from each another by exchange controls. The new unregulated Eurocurrency and Eurobond markets soon began to capture a rising share of financial intermediation from regulated domestic markets. The new financial markets were global in scope, but physically located in a small number of financial centers, of which London stood at the apex, and in offshore centers where the primary attraction was not the size of domestic markets, but a combination of regulations and fiscal conditions, and political stability (Jones, 1992; Roberts, 1994; Schenk, 2001, 2011; Ogle, 2017).

The commercial and investment banks in the new Euro markets innovated financial products on an accelerating scale with the tacit, and later explicit, support of the British and US governments (Helleiner, 1994). However the financiers who created these markets also subverted the strategies of governments to closely regulate their financial markets. In some instances, such as the British merchant bank Warburg, they were explicitly motivated by political and economic ambitions to erode national sovereignties and foster European integration (Ferguson, 2009).

The physical location of international financial markets in a few geographies formed part of a wider pattern of the concentration of business activity in certain cities and regions during the postwar decades. The advantages of proximity and agglomeration drove such patterns. While such clustering had always been a feature of the world economy, the growing importance of knowledge, and knowledge workers, intensified the trend. This was evident in the origins of the Silicon Valley technology cluster during the 1950s and 1960s, where an unusual convergence of technological skills, educational institutions, and venture capital led to the creation of multiple entrepreneurial firms which were to dominate innovation in many parts of the IT industry for the remainder of the century (Lécuyer, 2005).

During the 1950s, most of the international cartels of the interwar years were dismantled, while U.S. manufacturing companies invested on a large scale in Western Europe,

initially in response to the “dollar shortage,” which encouraged U.S. firms to establish factories to supply customers in countries that lacked the dollars to buy American products (Wilkins, 1974). There was initially little rationalized production, and intra-firm trade was low. However, from the 1960s, firms began to seek geographical and functional integration across borders. The process of building integrated production systems was difficult. While a European company such as Unilever was a prominent proponent of European economic integration from the 1950s, it struggled to achieve regional integration of their own production and marketing facilities (Jones and Miskell, 2005).

The postwar decades were the classic era of the Chandlerian large corporation managed by professional managers, which served as powerhouses of innovation in many manufacturing industries, especially in the United States. US-based firms were pre-eminent in new technologies, and they sought to maintain innovation and other value-added activities within firm boundaries. In the computer industry, for example, it proved impossible for western European firms, let alone those from developing countries, to build sustainable businesses. Advanced knowledge was locked within the boundaries of such large Western corporations, as well as geographical clusters such as Silicon Valley.

Global business also often changed its form, rather than disappearing, and resilience remained a prominent feature. Whilst foreign ownership of natural resources vastly declined, especially during the 1970s, foreign orchestration of commodity trade flows and dominance of higher value added activities did not. World trade in commodities was increasingly handled by giant commodity trading firms such as Cargill, the grain trader and largest private company in the United States (Broehl, 1992, 1998). While large integrated oil companies lost control of their oil fields in many countries, they kept control of refineries, tankers, and distribution facilities. New forms of independent trading companies emerged as key players in the global economy. A number of the most important, including Andre and Philipp Brothers were either based in Switzerland or used Swiss-based affiliates to book most of their transactions. Switzerland offered a low tax environment and corporate secrecy, with the added benefit of not belonging to the United Nations (Guez, 1998). This enabled the companies to trade with governments, such as that of apartheid-era South Africa, subject to trade embargoes. The most noteworthy example was the trading house of Marc Rich, founded in 1974 by disgruntled former employees of Philipp Brothers, which had revenues of \$15 billion by 1980. It flourished as the world’s largest independent oil trader by

clandestinely selling Iranian oil to Israel and South Africa (Ammann, 2009).

Firms proved adept at pursuing strategies to respond to anti-foreign sentiments or critical governmental policies. They assumed local identities. In 1947 Sears, the U.S. department store chain, started a successful business in Mexico, a country which had only a decade earlier expelled foreign oil companies and was widely regarded as highly nationalistic. Sears carefully crafted its strategy to appeal to Mexicans, representing policies such as profit-sharing, pensions and low priced meals as in the traditions of the Mexican Revolution (Moreno, 2003). Unilever retained its large consumer goods business in India, and other emerging markets such as Turkey, by means of employing local nationals in senior management positions, selling equity shares to local investors, and investing in industries deemed desirable by governments, such as chemicals in India (Jones, 2005b, Jones, 2013).

Multinationals also learned that interventionist government policies could work in their favor. In Latin America, postwar governments imposed high tariffs to achieve import substitution manufacturing, but they did not prohibit ownership of industries by foreign firms. The Brazilian and other Latin American governments offered incentives to attract foreign firms to build manufacturing facilities. Although such import substitution strategies have since been widely derided, in part as they became associated with the chronic macroeconomic mismanagement which resulted in hyperinflation in Brazil and elsewhere during the 1970s and 1980s, they resulted in the building of much new industrial capacity.

A striking example was the creation of a large automobile industry in Brazil from the late 1950s. While the U.S. automobile giants Ford and General Motors initially refused to respond to the government's desire to start local production, the upstart German car maker VW began local manufacturing, benefitting from exchange rate subsidies. It was able to rapidly overturn the large market share of the U.S. firms which had relied upon importing knock-down kits for assembly. By 1980 Volkswagen, eventually joined by the leading U.S. and other firms, had given Brazil an annual production of over one million vehicles a year, making the country the world's tenth largest automobile industry. The downside was excess capacity and low productivity, but VW and the other firms had also laid the basis for the sub-continent's largest automobile industry (Shapiro, 1994).

Global Business and the Second Global Economy 1979–2008

As the world spectacularly re-globalized from the 1980s, among the most dramatic changes was the worldwide policy embrace of global capitalism. State planning, exchange controls and other instruments of interventionist policies were abandoned. Instead, practically every government on the planet eventually came to offer incentives for global firms to invest. The most spectacular change came in China which, after 1978, opened its economy once more to global firms. In 2001 China's joined the World Trade Organization (WTO), resulting in significant cuts in Chinese tariffs. Just over ten years later the fall of the Berlin Wall and the collapse of the Soviet Union re-opened eastern Europe to global business. In some federal systems, such as the United States, individual states competed with one another to attract foreign investors.

The role of global business in the growth and dynamics of the second global economy is considerable. The ratio of inward FDI stock to GDP rose in the world from 9.6 per cent to 30.3 per cent between 1990 and 2010. The same increase applied to the developed world as a whole, but there were outliers. In Britain, inward FDI stock rose from 20.1 per cent of GDP to 48.4 per cent between 1990 and 2010. In the developing world as a whole the ratio increased from 13.4 per cent to 29.1 per cent, but again there were outliers. In India the ratio of inward FDI stock rose from a very low 0.5 per cent in 1990 to a much higher 12.0 per cent in 2010. In China, it rose from 5.1 per cent to 9.9 per cent (UNCTAD, 2011).

As during the fast globalization during the late nineteenth century, global firms were drivers of economic integration. Multinational investment grew far faster than world exports or world output. International production systems developed within which firms located different parts of their value chain across the globe. In some industries such production systems became highly externalized through outsourcing.

There was a striking globalization of many services. These included insurance and re-insurance, where firms such as AIG, Allianz and Swiss Re expanded globally. In leisure and retailing, the coffee chain Starbucks, which made its first investment outside the United States in Japan in 1996, and retail companies such as Wal-Mart, Zara and Uniqlo became symbolic of the new global era. In media, News Corporation built a newspaper, movie, television, and cable business with large market shares in Australia, Britain, India and the United

States (Fitzgerald, 2015; Hauter and Jones, 2017).

The global significance of firms based beyond North America, Western Europe and Japan also rose. During the 1960s and 1970s, some manufacturers from South Korea and Taiwan began to invest abroad, typically in other emerging markets. They were usually small-scale and used labor-intensive technology. A second wave of firms, based in both Asia and Latin America, began to expand globally from the 1980s, often after they had built scale and corporate competences in their protected domestic markets. They were prominent in assembly-based and knowledge-based industries including electronics, automobiles and telecommunications. These investments often originated from firms embedded in the business groups which characterized emerging markets, including the Korean *chaebol* and the *grupos economicos* in Latin America. (Amsden, 2003; Kosacoff, 2002; Khanna and Palepu, 2006; Barbero, 2014).

The ability of firms from emerging markets to become significant actors in global capitalism rested on several factors. They were sometimes able to piggyback on incumbent Western or Japanese firms as customers through subcontracting and other linkages (Mathews, 2002). The spread of management education, as well as the growing number of international students at leading U.S. business schools, provided firms outside the developed core with well-trained and globally-minded managers. Finally there was a new generation of state-owned, or partly-owned firms, which could invest in building global businesses without the constraint of having to deliver private shareholder returns. The growth of state-owned firms was particularly evident in China, where state support enabled highly competitive local firms to emerge even in high-technology sectors. Examples included Huawei, the internet networking firm, and wind and solar energy firms such as Xinjiang Goldwind. The number of Chinese companies among the global top ten turbine manufacturers went from zero to four between 2006 and 2010. (Buckley, Voss, Cross and Clegg, 2011; Clifford, 2015; Jones, 2017).

The dynamic growth of global firms, drawn from a widening range of home countries, was apparent. There remained little or no aggregate evidence of spillovers from multinational firms to local firms in the same sector, especially in developing countries, although there was evidence of positive linkages between multinationals and suppliers. Foreign affiliates were often more demanding in their specifications and delivery targets, while more willing to provide assistance and advice to local firms. Multinationals continued to have no

incentive to encourage knowledge leakages to competitors. In many developing countries, local firms also still lacked the capabilities to compete with large multinationals, and the greater the technology gap, the more difficult this gap was to fill. (Alfaro and Rodriguez-Claire, 2004). Governments sought to attract foreign firms and create whole industries by designating free trade areas or export processing zones. Most export processing zones, whether in Asia, Africa or Latin America, have failed to attract more than the low value added, low-skill, segments of industry value chains (Steinfeld, 2004; Cling, Razafindrakoto, and Roubaud, 2005).

As global firms moved resources across borders in pursuit of profitability opportunities, they also continued to reinforce trends more than counter them. Despite the availability of technologies which permit the dispersal of economic activities, global firms served as major actors in the clustering of higher value-added activities in “global cities” and regions such as Silicon Valley and Bangalore. A significant difference with earlier eras may have been that US firms started to “outsource” domestic jobs to foreign countries. Apple, for example, outsourced manufacturing of its iconic iPhone to the Taiwanese company Foxconn, which produced them in China. In 2016 half of the world’s iPhones were made at a Foxconn plant in Zhengzhou, China, where the venture received massive subsidies from the local and provincial government (Barboza, 2016). The aggregate evidence on domestic employment loss and hollowing out in the United States was not straightforward. Longitudinal research has not generally supportive of political rhetoric on the major threats to domestic employment (Harrison, McMillan and Null, 2007). However there was little doubt that global firms played a significant role in the widening wealth gaps which became a feature of the second global economy. Enabled by the rise of theories of shareholder value and the rapid expansion of stock options, chief executives awarded themselves very large remuneration even as real incomes remained highly subdued, especially in the United States. The second global economy was also characterized by extensive gaming and outright corporate fraud among large global corporations, facilitated by the ability to transfer funds through offshore financial centers such as the Cayman Islands which had opaque reporting requirements (Salter, 2008; Balleisen, 2017).

Global Business in the Era of New Deglobalization since 2008

As in the previous era of globalization, a financial crisis provided a massive shock to the global economy. The world financial crisis of 2008–2009 was itself the result in part of three decades of the financialization of capitalism, enabled by the deregulation of financial services industry which had been tightly regulated by most governments between the 1930s and the 1970s. The financial sector represented 8 per cent of US corporate profits in 1950. By 1990 it was 20 per cent. By 2003 it was 34 per cent. Global financial assets rose from \$56 trillion in 1990 to \$206 trillion in 2007. Financialization was accompanied by a number of financial crises—including currency and stock market collapses in Asia in 1997 and the collapse of the US and other stock markets in 2000—before the collapse of Lehman Brothers resulted in a full-scale global financial crisis.

The global financial crisis resulted in a severe economic downturn, but more fundamentally it provoked a change of sentiment about the benefits of liberal global capitalism. Policy regimes shifted in a more restrictive fashion towards global firms, especially initially in financial services. There were no more international agreements to reduce tariffs: the Doha round of multilateral trade negotiations stalled. Although tariff levels did not rise, governments took numerous other protectionist non-tariff measures. After 2008 there was a surge in micro-protectionism. There was a widespread adoption of local content rules, public procurement discrimination against foreign firms, export taxes and quotas, and trade distorting subsidies. One study identified 3,500 new protectionist events between 2008 and 2016. This policy shift contributed to a significant stagnation in capital and trade flows. The ratio of world trade to output was basically flat between 2008 and 2016. FDI flows fell from a peak of \$1.9 trillion in 2007 to \$1.2 trillion in 2014 (Hufbauer and Jung, 2016; Ghemawat and Altman, 2017).

It was within the content of stagnation that a number of populist governments came to power which looked upon liberal and cosmopolitan capitalism with disfavor and pursued nationalistic agendas. This trend was first evident in emerging markets such as Turkey, Thailand and the Philippines, as well as Russia, but subsequently spread to some Western economies characterized by extreme inequality and/or high levels of immigration. Britain's decision in 2016 to leave the European Union, motivated by popular desires to restrict migrant flows, had the potential to disrupt multinational supply chains in Europe and the

meltdown of London as the world's leading global financial center. Donald Trump's assumption of the US Presidency in the following year was followed by a surge of trade protectionist and anti-immigrant rhetoric, as well as withdrawal from the Trans-Pacific Partnership (TPP) trade agreement and the Paris climate change agreement signed in 2015.

This political and economic environment rendered international corporate strategies more challenging. Some emerging markets firms which had gone global during the heady days of the second global economy experienced managerial and financial challenges. These included Indian companies such as the Tata business group and steel company Arcelor Mittal, which struggled to manage acquisitions in major Western and other markets. A number of globalized Brazilian firms were caught up in a massive corruption scandal which broke out in the country in 2014. However many emerging market businesses emerged as successful global competitors to Western incumbents.

As in the previous era of deglobalization, global firms sought to accommodate nationalistic governments. In 2016 Cisco, which had once dominated internet networking in China, but whose business had shrunk as the government favored domestic competitors such as Huawei, merged its China business with the local company Inspur to create a joint venture. In January 2017, the public tweets of Donald Trump ahead of his assumption of the U.S. Presidency, resulted in the Ford Motor Company cancelling plans to build a \$1.6 billion automobile manufacturing plant in San Luis Potosi in Mexico. Companies with strong bargaining power sought to negotiate special deals with governments. In 2016, following the Brexit vote, the British government promised the Japanese automobile manufacturer Nissan special incentives should Brexit negotiations result in trade barriers which would hinder the company selling into the EU. As institutional structures weakened, global firms sought protection in special deals with governments.

Conclusion

Business enterprises have been powerful actors in the spread of global capitalism after 1840. Emerging out of the industrialized Western economies, global firms created and co-created markets and ecosystems through their ability to transfer a package of financial, organizational and cultural assets, skills and ideologies across national borders. They have been major drivers of trade growth, which they often organized within their own bounda-

ries. They have been shapers of, as well as responders to, globalization waves over the last two centuries. There was a great deal of heterogeneity in the organizational forms employed in global business: indeed, mapping and accounting for such changes should form an important component of future research agendas.

Global firms were also actors in periodic de-globalization waves. This was because they functioned as re-inforcers of gaps in wealth and income rather than disrupters of them. Business enterprises proved disappointing institutions for knowledge and technology transfer. During the first global economy, multinational resource and related investments were highly enclavist, and embedded in the institutional arrangements of Western imperialism and autocratic dictators. Western firms reinforced rather disrupted institutional and societal norms which restricted growth in many countries outside the West. They often functioned, as a result, as part of the problem, rather than part of the solution. In the more recent globalization era, the strategies of Western corporations have moved far beyond the practices of the colonial past, but linkages and spillovers to local economies have often been disappointingly low. Their ability, and motivation, to locate value-added activities in the most attractive locations means that they strengthen clustering rather than encourage dispersion of knowledge. Business historians have concentrated far too much on the drivers of global business, and far too little on its impact. The next generation of research should focus far more on impact, including not only knowledge transfer, but also impact on inequality, gender and ethnic relations, and environmental sustainability.

Evidently over the course of the second global economy the era when Western and Japanese business enterprises dominated global markets and innovation began to give way to one in which they competed as equals in a growing number of industries with firms whose homes were in China, India, the Arab Gulf and elsewhere. Much more research needs to be undertaken on the historical origins of this shift. This will require business historians to shift their focus from the West and Japan. As wealth shifts East and with the consolidation of China as the world's largest economy, this trend can only accelerate, especially as the growing fragility of institutional structures in the United States and the EU looks set to further weaken the competitiveness of firms based in those regions.

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