

**International Business Enterprise before 1945:  
Evolution of the Global Cigarette Market**

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## Introduction

It is well known that the birth of BAT, in 1902, came as the culmination of a period of frenetic competition within the British tobacco market between James Duke's American Tobacco Corporation, which had purchased control of the Ogden's Tobacco Company twelve months earlier, and the Imperial Tobacco Company of Great Britain and Ireland. The story has traditionally been cast as one in which the thrusting energy of American business enterprise holds sway over the conservative, unadventurous mindset that was symptomatic of manufacturing firms in late Victorian Britain (Winkler 1942; Alford 1973; Corina 1975; Durden 1975; Chandler 1977). Little wonder that Alfred Chandler, in seeking a case study to exemplify the weaknesses of Britain's business enterprises, should have selected the Imperial Tobacco Company (Chandler 1990). The formation of Imperial - a managerially fragmented federation of British tobacco firms - came about as a direct response to the American firm's entry. Within a year it had capitulated into an ignominious surrender of its export business and foreign investments to BAT, an international joint venture with Duke's American Tobacco, in which the British firm was granted only a 33 per cent equity interest.

In the years that have passed since these events, the story of the circumstances that led to the formation of BAT has - it is fair to say - become virtually a legend within the field of business history. In revisiting the story in *The Global Cigarette*, however, my intention has been to set the event in its broader, historical context (Cox 2000). And this context is the evolution, between approximately 1880 and 1945, of an international tobacco industry. Hence, the leading concern of the book has been with the emergence of modern multinational companies (MNCs) of the kind exemplified by BAT. When I began my research in 1985, relatively little serious academic work had been done on the early history of MNCs (for a review see (Jones 1996). These giant firms tended to be seen primarily as a post-World War Two phenomena; an outcome of the new world economic order of the Bretton Woods era and, almost exclusively, American creations.

Moreover, a counterpart to this lack of historical context concerning the formation of BAT was the absence of an international perspective by historians of the tobacco industry. Numerous books, written before 1985, contained accounts of tobacco manufacturing in specific countries, but practically nothing existed which considered the industry as a globally integrated entity (Masden 1916; Cox 1933;

Tilley 1948; Robert 1949; Tennant 1950; Axton 1975; Sobel 1978; Badger 1980; Johnson 1984; Walker 1984). Indeed, the defining moment of my own research occurred when I discovered that no proper history had ever been published of BAT, a firm that in the mid 1980s constituted Britain's third largest company by asset value. Nevertheless, I did not set out simply to write a conventional corporate history of BAT. Rather, my research interest was the evolution of international business, and my objective was to understand the company's role and significance in relation to this broader process of corporate international expansion.

In my opinion, the case of BAT stands as a particularly revealing example of the growth of global industries during the period 1880-1945 for three reasons. First, the nature of the product - the cheap, machine-made cigarette - lent itself almost immediately to a worldwide market via mass production and meant that BAT, and its progenitors, were leading actors in the process of internationalisation within the tobacco manufacturing business (Wilkins 1973; Cochran 1980; Cox 1989). Second, the establishment of the American Tobacco Company (ATC), BAT's leading parent company, in the United States in 1890, represents a pioneering case of the organisational form - the large scale, divisionalised American corporation - out of which modern MNCs evolved (U.S. Bureau of Corporations 1909; Porter 1969; Chandler 1977; Burns 1982; Roberts and Knapp 1992; Schmitz 1993). These two features mean that the cigarette industry plays a crucial historical role in pioneering the growth of modern, market-driven international industries. It is not surprising to discover, for example, that the purchase by ATC of majority control over the Murai Brothers Tobacco Company in 1899 constitutes the first occasion in which a foreign firm acquired equity control over a Japanese company (Thomas 1923; Durden 1976; Davenport-Hines and Jones 1989). In tracing the origins and evolution of BAT, therefore, *The Global Cigarette* identifies not so much a specific episode in business history, but the nascent phase of the broader process of globalisation that has since become a feature, to a greater or lesser extent, all of the world's leading manufacturing industries.

Whilst the birth of BAT is important as an exemplar of a period of corporate expansion, the company's history also enables the business historian to consider how international firms react to a period of economic retrenchment. Hence, a third point of interest for *The Global Cigarette* concerns the period of global recession that followed the 1929 Great Crash in the United States. By this time

BAT had evolved into a mature international business enterprise, controlling operations in around 50 countries. As we follow the history of BAT into the 1930s, it is possible to gain important insights into the way in which established MNCs responded to international economic and political dislocations (Wilkins 1973; Kindleberger 1986; Cain and Hopkins 1993; Bostock and Jones 1994; Jones 1996; Cox 1997), and how the competitive structure of the tobacco industry changed as a result (Cox 1933; Corina 1975; Hill 1978; Basu 1988; Nordvik 1994).

### A Historical Agenda

In writing *The Global Cigarette* I have attempted to address various questions that have either been unsatisfactorily dealt with by earlier studies or have been particularly pertinent to my own research interest. In this essay I should like to rehearse these questions, and to outline the conclusions that I reached. Before attending to this, however, I should like to briefly review the historical context of the work. In Figure 1 I have sketched out very roughly the international political and economic conditions that provide the backdrop to the study. To this I have added an impressionistic account of the competitive phases of the international cigarette industry. The two elements clearly fit together. The Gold Standard era before World War One was designed to facilitate international trade and it was during this time that cigarette-manufacturing firms from the United States and the Near East developed an export trade in hand-made cigarettes. This phase of international growth in the cigarette trade has hitherto been largely neglected, yet was an important forerunner to the growth of international firms in the industry. Nonetheless, it was with the mechanisation of production that the scale of this export trade completely altered, and cigarette exports from America practically quadrupled during the decade of the 1890s. This influx of imports into the British market, along with the monopoly power that ATC began to attain in the American market, caused deep concern among Europe's tobacco manufacturers. At the same time growing political rivalries, manifesting as an upsurge in imperialism, were beginning to impinge on the free trading system through tariff increases, causing firms to reconsider the efficacy of exports as a marketing strategy. These were the conditions that provided the context for the assault by ATC on the British market and the subsequent formation of BAT one hundred years ago.

From 1902 to the outbreak of World War One BAT's position in the international cigarette

market was unrivalled. It is clear that this situation could not have endured indefinitely under any circumstances, but two political events served to ensure that the international tobacco industry entered a new phase of competition during the second decade of the twentieth century. The first of these was the dissolution of ATC in 1911 by the American anti-trust authorities and the second was the outbreak of the war in Europe during 1914. Neither of these events affected BAT adversely. The first acted to shift the balance of the company's ownership from American to British shareholders, severing its formal link with ATC, whilst the second significantly boosted the young firm's business by providing a new customer in the shape of the British government's War Department. However, both events acted to shake up the tobacco markets in BAT's home countries such that by the end of the war a variety of new rivals began to seek a share of the international cigarette market.

Throughout the 1920s, therefore, BAT actively competed with British and American rival firms in their leading markets such as China and India. Consequently, in the decade after World War One a substantial amount of capital was invested by BAT and other tobacco firms in cigarette markets across the world, creating a truly global industry. As in other industries and sectors, however, scope for further profitable investment was beginning to dry up by the late 1920s. The global recession that followed in the wake of the Wall Street crash of October 1929 dramatically affected the competitive structure of the international cigarette industry. Many of BAT's international rivals withdrew from markets, and whilst in overall terms BAT's cigarette sales held up well the cost was borne in terms of a squeeze in margins, leading to lower profits and dividends during the 1930s. Pressure on prices encouraged firms to collude, and the creation of cigarette cartels became a widespread phenomenon at this time. Moreover, the retreat into the politics of extreme nationalism militated against international brands and foreign companies in general. Thus during the 1930s the international cigarette industry reverted in large measure to a series of national or regional markets and in these years BAT placed much greater emphasis on cultivating local company identities and promoting parochial brands that would appeal to indigenous consumers.

#### Some Research Questions

Having briefly set out the historical framework of *The Global Cigarette* let me now turn to some of the

main research issues that the book has addressed. Among the most important were the following:

1. What motivated ATC to invade the British market in 1901 and what does it tell us about the corporate strengths and weaknesses of American and British firms at the time?
2. Who held the balance of power in the BAT joint venture and should it be characterised as a British or an American firm?
3. Why does it appear that the international competitive response from American firms after the dissolution of ATC in 1911 was relatively muted?
4. How did BAT succeed in managing its international business organisation in an era of limited systems of communication?
5. How did the changing political circumstances of the period covered by the study affect BAT's strategy and performance?

The first three of these questions relate to issues that have been raised in other studies of business history. In each case, the research that I have undertaken has thrown new light on the questions and provided fresh evidence that I will briefly summarise. The final two issues are much broader and were important motivations in undertaking the study. They constitute major themes of the book. Reviewing them in full here is not possible, but I shall attempt to convey some of the main insights that my research revealed.

#### Understanding the 1901 "Tobacco War"

ATC had a long history of involvement with the British cigarette market. James Duke's own firm, W. Duke, Sons & Co., had first sold its brands in the British market during the 1880s and each of the other four founder members of the ATC amalgamation had been active in the British market before 1901. Operating originally through import agents (as early as 1876 in the case of Allen & Ginter), in the 1890s ATC set up its own depot in London and sales grew rapidly until around 1897 before levelling off. By 1900 this stagnation in sales meant that the depot was barely breaking even and a

realignment of tariff duties designed to raise funds for the Boer War in South Africa had the effect of further disadvantaging imported cigarettes against the locally produced article. This tariff increase can probably be seen as the proximate cause that led ATC to acquire a manufacturing facility in Britain, but the move itself occurred as part of a wider strategy of foreign expansion on behalf of the American firm.

Foreign investment via acquisition had already been undertaken by ATC in markets such as Canada and Australia, and more recently in Japan and Germany. Duke would undoubtedly have been aware that the leading British firms had contingency plans for such an eventuality. Fresh evidence unearthed by my research shows that ATC had entered negotiations with the Liverpool-based firm of Ogden's as early as August 1900 - more than a year before the "invasion" itself - and that Britain's leading tobacco firms had been made aware of this development by no later than April 1901. The invasion, therefore, by no means came as a surprise to those involved.

Two aspects of the conflict that followed the acquisition of Ogden's by ATC warrant further comment. First, the competitive actions employed by Duke through Ogden's after the acquisition - in terms of marketing schemes - were financially unsustainable. The objective, as with other Duke - inspired strategies, was to force parties to the bargaining table. The prize he sought was less the British market than the freedom to expand throughout the rest of the world. Second, the acquisition of Ogden's was not simply a means to an end but an important end in itself. Ogden's was a highly aggressive competitor close in character to Duke's own firm. It devoted 25 per cent of its net profits to advertising compared with the one to two per cent expended by the leading cigarette manufacturer W.D. & HO. Wills and it had begun to effectively challenge the market position of the latter by launching a cheap brand of cigarettes. Moreover, the company had expanded its operations abroad into Australia where it competed effectively with both Wills and ATC. In short, the management style of Ogden's reflected Duke's own view of how firms should compete.

The tobacco war episode illustrates Duke's gambling instincts at their most inspired. Ogden's was purchased and a year later its physical assets were successfully resold to Imperial shorn of its export factory and foreign investments. And BAT was created with ATC controlling the majority of its share capital. But perhaps the feature of the tobacco war in Britain that deserves most emphasis is the

demonstration that, in Ogden's, the UK did possess a company with as much drive and competitive acumen as Duke's own. And it was members of Ogden's management who emerged as leading executives of the newly formed BAT.

#### BAT: British or American?

This issue of management brings us neatly to the question of the nationality of BAT. If nationality is considered in relation to the company's shareholders then there is no ambiguity. Up until 1911 the company was two-thirds American-owned, after that date it became majority-owned by British shareholders. But in relation to management the fact is that, when James Duke first stood down as Chairman in 1905, the key decision makers within BAT were the British members of its board of directors. Indeed, it is a curious aspect of the ownership versus management issue within BAT that although ATC appointed twelve of the eighteen members of the company's board of directors, six of these twelve were drawn from the management of Ogden's were thus British rather than American. Hence from the very beginning, the majority of BAT's top managers were British citizens based in England.

In operational terms it was only in China and, later, in Central America, that American managers were in the ascendancy. When Duke briefly resumed his role as Chairman of BAT in 1912 it was actually designed to consolidate the locus of management more securely in London. Piqued by the decision of the American anti-trust authorities to break-up ATC in 1911, Duke was determined to ensure that BAT lay well beyond the reach of the meddling politicians of Congress. And his subsequent decision to abandon London following the outbreak of war in 1914 - thus breaking the covenants he had signed pledging himself to be based in England for a specified period of time - brought to an end any question of Americans retaining strategic control over BAT's affairs. In sum, it seems clear that a convincing case can be put forward for arguing that BAT was, and essentially has always been, a British-managed multinational company.

### The Missing American Response

One rather odd feature of BAT's history is that, despite his effective disappearance from the scene in 1914, James Duke remained as BAT's Chairman until 1923. After the dissolution of ATC and his departure from BAT in 1914, Duke shifted the bulk of his attention to other areas of business (Durden 1975). There is no doubt that BAT found it convenient to benefit from his reputation by retaining him as their nominal Chairman and, of course, he continued to be a major shareholder. But his decision to formally stand down as Chairman in 1923 has never before been properly explained. In fact, this decision can be traced to events in the tobacco industry of America that few existing scholarly accounts have ever alluded to.

In attempting to explain the relatively muted response of American tobacco firms to potential opportunities in the international market for cigarettes after the dissolution of ATC in 1911, historians have tended to focus their attention exclusively on the successor firms to the original ATC concern. Perhaps because unsuccessful enterprises tend to be relatively neglected by historians of business, little attention has been given to the role of a company called the Tobacco Products Corporation (the main exception is the study by Cox (1933), but see also Kluger (1996)). However, between 1912 and 1919 the Tobacco Products Corporation bought out around a dozen of the smaller U.S. cigarette and tobacco manufacturing companies - including the American interests of Philip Morris - in an effort to wrest a share of the American market. The founders of the business were financiers who had been closely involved with Duke's ATC enterprise and Duke himself held a financial interest in the company. As a result of its programme of acquisitions the Tobacco Products Corporation gained control of a variety of foreign-based operations and, in order to manage these, formed an allied company called the Tobacco Products Export Corporation.

The activities of the Export Corporation were not especially successful, failing for example in an attempt to acquire control of the French state tobacco monopoly. In a final bid to gain a meaningful presence within the international cigarette market, the Tobacco Products Corporation in 1922 set up Philip Morris International, which it then used to acquire the U.S. rights to Imperial's brands that had passed to ATC in the 1902 settlement. Given that many of these brands of cigarettes were now being sold by BAT in markets around the world, the logic of the deal, and Duke's involvement in it, is easy

to adduce. Philip Morris International was intended, by means of a merger, to become the American arm of BAT. In the summer of 1923, reports in the tobacco trade press show that discussions between the management of Tobacco Products Corporation, BAT and Imperial took place in England. However, Imperial's position as minority shareholder in BAT enabled that company to block the deal, which ultimately came to nothing. Within a few days, Duke had officially quit as Chairman of BAT and his successor, Hugo Cunliffe-Owen immediately laid plans to enter the American market - a strategy which was ultimately pursued via the acquisition of Brown & Williamson in 1927. Thus not only was the American thrust repelled, but BAT emerged as a significant force in the U.S. tobacco market, which it remains to this day.

Some of the other leading ATC successor firms did make an effort to expand their international sales - Liggett & Myers were the most active - but for much of the period after 1911 they were distracted by the impact on the American market of the successful launch of Camel cigarettes by R.J. Reynolds in 1913. This had the effect of fatally delaying their foreign investments and allowing BAT to consolidate their interests in markets such as China and Latin America. More concerted attempts were made by the Tobacco Products Export Corporation, but this relied too much on financial manoeuvring and lacked the organisational and managerial capacity that had acted to make BAT so successful.

#### Managing a Transnational Organisation before 1945

The three issues just discussed all relate to relatively narrow questions that have been raised in respect of BAT's history. However, the main purpose of *The Global Cigarette* was to consider the way in which the growth and development of BAT was shaped by a combination of internal and external factors. My final two areas of concern therefore are with the system of international management that BAT developed and utilised during its first four decades, and the way in which wider political and economic forces acted to shape the company's conduct and performance.

The management of an international cigarette manufacturing company is a complex operation even in the modern era of advanced information and communication technologies. In the early twentieth century only the telegraph provided a rapid means of communication, whilst international

travel remained rooted to the earth and sea. Under these circumstances it is perhaps surprising that an international cigarette company was able to make very much headway against rivals who were well informed about local conditions and preferences. Technical knowledge regarding production and the financial capacity to gain scale economies were both important factors in this equation. But an acquaintance with the history of cigarette manufacturing in China is sufficient to demonstrate that access to technology alone was not sufficient to bring commercial success to an aspiring firm. And whilst BAT was extremely efficient as a producer of cigarettes it was, I would argue, the company's skills at the downstream end of the value chain that were mainly responsible for its success as a pioneering MNC.

Tracing the origins of BAT's international management system leads one back to Duke's ATC organisation. Although the majority of BAT's managers were British, most of the management systems adopted by the new firm were American. Duke himself was a graduate of the Eastman Business College in Poughkeepsie, New York, and understood well the benefits of sound accounting practices. In creating a nationwide distribution system in the U.S. for the cigarettes produced by ATC's factories, Duke utilised many elements of the business curriculum. In terms of marketing he seems to have displayed a natural gift, but it was in the allied discipline of distribution that his business education seems to have had its greatest impact. As its market grew in size during the 1890s, ATC brought into its organisational compass the warehousing function of distribution, enabling the company to keep its supply lines fully stocked, and supported this with accounting systems that accurately tracked movement of cigarettes along the supply chain (Porter and Livesay 1971).

Distribution is a key competence in the cigarette business, and one that BAT excelled in. The proving ground for the new company, in this respect, was China. At the turn of the century China presented an alluring potential market for firms engaged in mass production. Few were able to realise this potential and none exploited it with the degree of success achieved by BAT. On the eve of the First World War, 65 per cent of Britain's cigarette exports were destined for China and Hong Kong. In addition, the company was producing well over 5 billion cigarettes per year in factories located in Shanghai, Hankow and Manchuria. The person charged with the responsibility for overseeing the distribution of these cigarettes in China was James A. Thomas. Thomas, a close ally of Duke, had by

1905 already gained many years of experience in the commercial practices of pre-modern Asian economies (Thomas 1928). During his ten years in control of BAT in China he formed important alliances with local merchant firms such as the Wing Tai Vo company, who were able to gain market opportunities that no Western firm could possibly have accessed independently (Cox 1997).

Duke gave Thomas a relatively free hand when he appointed him to manage the business in China. It was an inspired decision. The China market emerged as the bedrock on which the BAT empire was built, accounting for 40 per cent of all cigarettes sold by the company between the two world wars. And Thomas' position - the local "No.1" - became a key element in the BAT management hierarchy. During these early years, however, the lines of control from the centre were relatively weak and there was no integrated system of international management. After the departure of Duke in 1914, a palpable culture shift occurred within the BAT organisation. In 1915, Thomas was transferred from Shanghai to London in a move that seems certain to have been designed to bring his detailed know-how of the Chinese market more securely into the headquarters of the organisation. Following the end of the war in 1919 - and Thomas' own resignation - the top management of BAT visited China and used the pretext of a new system of corporate registration to assert still greater control over the business there: a move that heralded a shift towards greater managerial centralisation in the organisation.

By this time, leadership within BAT had fallen into the hands of Hugo Cunliffe-Owen, the successor nominated by James Duke at a fairly early stage. In his personality, Cunliffe-Owen presents something of a paradox. His private life and dealings were flamboyant, and he revelled in his role as a financial maverick and owner of a string of racehorses. At the same time he was bitterly opposed to alcohol and by the 1920s was strictly teetotal. In his dealings as Chairman of BAT, it was this conservative side of his character that was most apparent. As the only founding member of the BAT directorate still in place after Duke's resignation in 1923, Cunliffe-Owen's position within the company was paramount and unassailable. Thus between the wars BAT became increasingly the instrument of this one man. His policy forum was a tight group of co-directors who together formed his Daily Committee, and his international envoys were travelling directors - himself included - who would appraise the company's operations in six month-long foreign tours. Financial practices were

standardised across the organisation as a whole, with each subsidiary reporting directly to the London headquarters, and the expatriate No 1s who managed these businesses were charged with providing a constant flow of financial and sales data.

Under Cunliffe-Owen, therefore, a much greater degree of centralisation occurred in the international management of BAT. Such a strong focus of decision-making assisted the company in certain respects - in relation to the use of transfer pricing between subsidiaries for example - but left it vulnerable in other ways. In particular, Cunliffe-Owen's favoured strategy for management was via internal promotion, which perhaps was responsible for creating an unchallenging environment. In some respects the company became a victim of its own success. During the 1930s, as the degree of international competition ebbed, in a number of markets the company was forced to surreptitiously generate rivalry between its own subsidiaries. As this slackening of the competitive pressure became evident, a significant degree of corporate inertia seems to have developed. By the end of the Second World War the company had become far too reliant on the leadership of a single man, and when Cunliffe-Owen's chosen successor, Gray Miller, predeceased him in 1945, the long-serving Chairman was forced to abandon his intended retirement. Within 18 months, however, Cunliffe-Owen himself died suddenly of a heart attack and BAT was left to drift precariously into the post war era of international competition bereft of decisive leadership.

#### Impact of the Political Environment

By 1945, BAT was a very different type of organisation from the one that had been created in 1902. At the outset the company relied heavily on an export trade to supply its international markets, and the central task of the headquarters was the management of the company's export business. Where subsidiaries existed, in many cases they produced similar brands to those of the British and American founding companies, but were given a good deal of autonomy in operational terms. In the early twentieth century, markets such as Canada, Australia and New Zealand, South Africa and even Germany, Japan and India were seen as serving essentially the same type of consumers as in the U.K. and U.S. By 1945, a much greater proportion of BAT's business was derived from producing mainly low-grade cigarettes for domestic consumers in pre-industrialised countries using local brands, often

through subsidiary companies that had been acquired for the purpose. In organisational terms, the former model was a development of the American system of foreign expansion stemming from an international sales (or export) division. When subsidiaries were formed they were given a good deal of autonomy. In contrast, the latter model was far more hierarchical in its structure, and the key management objectives and criteria of foreign subsidiaries were determined and monitored from the headquarters in London.

To appreciate why the organisational structure of BAT evolved in this way it is necessary to take account of the political environment in which BAT operated. Incursions by BAT into foreign markets invariably engendered local hostility that, to a greater or lesser degree, manifested a political character. The American-led invasions of the markets in Britain, Germany and Japan all generated adverse reactions from amongst the domestic trade. In the case of Britain, of course, the problem was resolved by the agreement of September 1902. In Germany, American acquisitions of the Jasmatzi company in 1901 and another three concerns by BAT around 1912 led to boycotts of the company's products and a campaign of political agitation that eventually forced the company to sell off its German subsidiary in 1914 (Blaich 1975). The situation in Japan was very similar after ATC acquired the Murai Brothers Tobacco Company in 1899. In this case, the government acted directly to take control of the industry and create a state-sponsored tobacco monopoly (Durden 1976).

The failure of BAT to make any headway in Japan was instrumental in the company's decision to target the Chinese market more directly. Exports from BAT's Japanese factories to Shanghai had developed a strong momentum, and the firm sought to capitalise on this potential by building its own factory there. Under James Thomas' leadership, stringent efforts were made to cultivate strong political patronage in Peking, as well as through associations of tobacco merchants. The history of BAT's involvement in China is one of consistent political manoeuvring to gain influence and advantage, particularly through the utilisation of its tax gathering capacity (Osterhammel 1984). BAT's notable success in China during the KMT era stemmed from a judicious combination of political co-operation - especially with Finance Minister T.V. Soong (Wang 1960) - coupled with a gamut of continuous demands delivered through the British diplomatic and consular service.

Even within the British colonies, BAT did not find its early incursions left unopposed. In India,

for example, the company's initial export trade provoked the ire of nationalists and resulted in Swadeshi (home industries movement) boycotts in 1905 (Sarkar 1973). Perhaps more surprisingly, the company also found itself in conflict with the colonial government of India who imposed a substantial rise in tobacco import taxes in 1910 as a protectionist measure (Cox 1990). BAT responded by setting up local production of cigarettes and, in deference to the developmental objectives of the Indian Department of Agriculture, promoted tobacco leaf-growing and advisory services for Indian cultivators. Effectively, BAT began to use foreign direct investment, in India and elsewhere, as a means of providing import-substituting industrialisation for many of the pre-industrial economies in which it operated between the wars.

These observations lead to a consideration of the interdependence that exists between the economic and political regimes that govern the world economy. As the internationalisation of the cigarette industry proceeded from around the 1880s, it reflected the shift from a phase in which international activities were co-ordinated primarily through trade, to one in which direct investments became of increased significance. This latter phenomenon was partly an outcome of the growth of big business generally (Chandler 1977; Hannah 1983). As the scale of output in many industries adjusted to accommodate the automation of production, large-scale corporations developed which, in turn, provided a novel form of international economic expansion.

Such changes in the economic sub-structure of the world economy were not, however, accompanied by political realignments. In political terms the pre-industrialised economies, outside those of Latin America, remained linked to the industrialised world through the system of formal imperialism. After the First World War this political system became more and more anachronistic, as the political logic of colonialism clashed increasingly with the economic impetus of international capital flows (Kindleberger 1986). The political crisis that this provoked was ultimately resolved through the process of de-colonisation that followed the Second World War. In the post-colonial era of the Cold War, rivalries between free-market industrialised countries subsided and international investments between these countries stimulated the growth of modern multinational companies. In the 1980s, resistance to inward investment by MNCs in the less developed countries also began to decline and the present global economy came of age.

## Conclusion

The history of the international growth of the cigarette industry is, in short, the history of an evolving process of economic expansion that was effectively stalled by political factors and, as a result, went into reverse after 1930. The logic of the internationalisation process that stemmed from the technological and organisational changes of the last quarter of the nineteenth century thus fell victim to the political rivalries generated by the colonial system. In studying the history of BAT it is possible to see, in a very concrete way, how these economic and political forces affected the development of what proved to be the principal agent of economic change during the twentieth century: the multinational corporation. Between the wars, BAT survived - indeed in relative terms it thrived - primarily as a result of its ability to work within the political constraints that now confronted it. After the Second World War, as the political pendulum began to swing, BAT's traditional advantages proved to be less beneficial. Firms such as Philip Morris that adopted a more globally integrated approach began to challenge BAT's leadership and, as in the 1890s, international brands once again emerged as a critical determinant of competitive success in the global cigarette industry.

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**Figure 1**  
**International Cigarette Industry in Historical Context, 1880-1945**

<i>Increasingly antagonistic political rivalry between leading colonial powers</i>		<i>Versailles Treaty Dawes Plan Increasing local resistance to colonialism</i>	<i>Nationalistic Phase</i>	<u>International Political Conditions</u>
<u>1880-1914</u> <i>Gold Standard era but with rising tariffs Growing concern with monopoly</i>		<u>1914-1929</u> <i>Era of American-led free trade</i>	<u>1929-1945</u> <i>International economic dislocation and recession</i>	<u>International Economic Conditions</u>
<u>1880-1902</u> <i>Competitive export-led phase Mechanisation of production Initial FDI by US firms Some international brands</i>	<u>1902-1911</u> <i>Formation of BAT International monopoly vs. domestic firms</i>	<u>1911-1929</u> <i>Dissolution of ATC Military requisition of cigarettes in WWI Resurgence of international competition Widespread use of FDI as market entry</i>	<u>1929-1945</u> <i>International firms adopt national identities Regional/national cartels Exclusively local branding</i>	<u>International Cigarette Industry Competitive Conditions</u>