Seventh Lecture
Trojan Horses:
Global Production and the Transnational Corporation

Is capitalist ownership undermining state sovereignty?

Trojan Horses
• “No more barriers”?
• Sovereignty vs. ownership

The transnational corporation: concepts
• “Control”
• Parents
• Affiliates: subsidiaries, associates and branches
• Foreign direct investment (FDI)
• Equity, reinvested earnings and intra-company loans
• Non-equity investment
• Stocks vs. flows
• FDI and M&A

The transnational corporation: facts
• “Transnationality”: how should we measure it?
• Global distribution: who owns where?
• Cross-boarder links: ownership and technology

Origins: from imperialism to transnationalism
• Transnationalism: from sovereignty to ownership
• Surplus: internal vs. external
• The state: from internal pacification to external conflict

Five stages of imperialism
• Commercial, 15th-17th century
• Plantation, 17th-18th century
• Industrial, 18th-19th century
• Monopoly, 19th-20th century
• Transnational, 20th century and beyond

Why internationalize?
• OLI Model: Ownership, location, internalization
• Product cycles
• Oligopoly
• Barrier jumping
• The logic of accumulation

So what?
• Efficiency, spoils and democracy
• Regulation: is it desirable, can it be done, and how?
No More Barriers
Will transnational companies lead to world government?
A chat with Jurgan Schrempp by Justin Doebele
Forbes, January 11, 1999, p. 65

Multinational companies are old stuff now, but DaimlerChrysler is something else again. Most multinationals have one nationality but operate across borders. DaimlerChrysler has two nationalities. In a sense this gives the $143 billion (1998 estimated revenues) new entity enormous flexibility. It can shift investments and manufacturing to wherever conditions are most favorable. We talked about this with DaimlerChrysler Cochairman Jurgen Schrempp.

Schrempp: You touch upon an important point. We have to review the corporate governance of truly international companies. That doesn't mean you take as your model how U.S. companies operate, or how German companies operate.

At DaimlerChrysler we are finding our own answer. We have a codetermined [by shareholders, management and labor] supervisory board, and a shareholder committee. We have, for example, the president of the United Auto Workers union on our codetermined board. Thus we will have, on the labor side, a transatlantic coming together [of the German and American systems].

This is just a starting point in changing corporate governance. The end result is that you will have companies making decisions on a neutral basis, not a German or U.S. basis. We have started an evolutionary process that will also have an influence on national politics.

Forbes: What does this mean for national sovereignty. Who sets the rules?
Just as we businessmen have had a dialogue with politicians on a national basis, we need now a dialogue with politicians on an international basis. First of all we have to do this on a transatlantic basis. Once we get that right, then we can do it on a global basis.

At the end of the day we will have a transatlantic union-and then let's take it further, eventually building a world union. No barriers anymore. International companies. Internationally accepted corporate governance. Access to all markets, with management coming from all parts of the world. DaimlerChrysler can be a catalyst in moving in that direction.

Whose model will prevail? The U.S.'? Or Europe's?
[Laughter] It will be somewhere in the middle, maybe a little bit more toward that of the U.S.

We were the first German company to introduce stock options, and I have been criticized in the [German] media about this. You know, in Germany people are worried that if just a few guys with stock options run a company, they will optimize short-term results and then run off with the money. But now my peer group is following our lead.

We have tried to design [an executive compensation] system that should be a model for continental European companies. It has two elements. First, management should not optimize or maximize shareholder results on a short term basis. You must have [compensation] elements that are medium-to long-term.

We also want to strike a balance between interests of employees and shareholders. This is why we have four parts in a plan that is now under discussion. First, there is a fixed base salary, no more than 25% to 30% [of total compensation]. [Then there is] a bonus that is linked to operating profits, and then a medium-term stock plan that clearly defines targets on an annual basis. We also have stock options designed to make you part owner of the company.

Finally, there is a fifth element: If you are a top guy in the company, you must buy the stock. This is a new thing for Germany.

Your ideas about international governance sound utopian.
It will take a few decades to get there, but you have to start. I think the start is transatlantic.
Box 1.1. FDI and M&As: a comparison of the data

Changes in the levels of cross-border M&As are not always reflected in changes in FDI flows. This is because the foreign equity component of FDI flows contains only a part of the cross-border M&A transactions, namely, the foreign equity component of these transactions with a share of the total equity of at least 10 per cent. Mergers and acquisitions can take place through other types of transactions that are not included in FDI flows, such as minority investments (those that are classified as portfolio equity investments) and domestically raised capital (see accompanying figure). These ways of financing M&As have become more important in recent years. It is, therefore, possible to witness a large increase in M&As that is not fully reflected in FDI flows. By the same token, FDI flows contain elements, such as intra-company loans and reinvested earnings, that are not part of M&As. Consequently, movements in FDI flows can take place independently of movements in M&As. In practice, however, there is a close relationship between movements in M&As and FDI flows.

FDI and cross-border M&As

Intra-firm loans
Reinvested earnings
Portfolio investment
Domestically raised capital
Cross-border M&As
Foreign equity share of at least 10 per cent of the total equity

For details, see the section on “Definitions and sources” in the annex.

Notes and source for opposite page:


### Annex Table A.I.9. The world’s top 100 non-financial TNCs, ranked by foreign assets, 2003a

(Millions of dollars and number of employees)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Industry Type</th>
<th>Foreign Assets</th>
<th>Sales</th>
<th>Employment</th>
<th>TNIC</th>
<th>No. of Affiliates</th>
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<tbody>
<tr>
<td>1</td>
<td>United States</td>
<td>Electrical &amp; electronic equipment</td>
<td>258,930</td>
<td>256,863</td>
<td>227,221</td>
<td>120,769</td>
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<td>104,621</td>
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<td>United States</td>
<td>Motor vehicles</td>
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<td>136,750</td>
<td>133,850</td>
<td>103,851</td>
<td>270,789</td>
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<td>United States</td>
<td>Motor vehicles</td>
<td>15,466</td>
<td>146,507</td>
<td>135,627</td>
<td>185,528</td>
<td>30,600</td>
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<td>Petroleum expl./ref. &amp; distr.</td>
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<td>192,875</td>
<td>232,571</td>
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<td>Electricity, gas and water</td>
<td>67,069</td>
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<td>50,699</td>
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<td>141,260</td>
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<td>52,330</td>
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<td>Electricity, gas and water</td>
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<td>Media</td>
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<td>Motor vehicles</td>
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<td>47,000</td>
<td>26,066</td>
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<td>28</td>
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<tr>
<td>29</td>
<td>Switzerland</td>
<td>Motor vehicles</td>
<td>41,552</td>
<td>79,160</td>
<td>36,078</td>
<td>53,353</td>
<td>88,684</td>
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<td>30</td>
<td>Switzerland</td>
<td>Food &amp; beverages</td>
<td>41,078</td>
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<td>31</td>
<td>United States</td>
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<td>Retail</td>
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<td>47,572</td>
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<td>Spain</td>
<td>Telecommunications</td>
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<td>France</td>
<td>Water Supply</td>
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<td>49,154</td>
<td>17,578</td>
<td>32,283</td>
<td>205,694</td>
</tr>
</tbody>
</table>
| 38   | United States | Diversified | 33,361 | 57,048 | 27,719 | 51,407 | 68,694

Note: TNC = Transnational Company; TNIC = Total Net Investment in Capital; II = Investment Intensity.
Box II.3. Transnationalization in the medium term

A survey carried out between July and November 1997 among 300 managers of TNCs and international experts around the world, supplemented by about 100 direct interviews, suggests that the trend towards a further transnationalization of firms will continue in the medium term, independently of the size, sector and location of the TNCs. More specifically, between 1996 and 2002, the contribution of foreign activities to respondents’ business is expected to rise from an average of 47 per cent to 56 per cent in sales, from 35 per cent to 45 per cent in production, from 34 per cent to 42 per cent in employment, from 36 per cent to 42 per cent in gross investment, and from 32 per cent to 41 per cent in assets (box figure 1). As a result, a rising number of companies will establish genuine transnational production and sales networks, compared with a minority in the early 1990s. Only 33 per cent of the respondents to the survey considered their companies “completely global” or “highly coordinated internationally” in 1990; this proportion had risen to 56 per cent in 1996 and could reach 78 per cent in 2002, while the proportion of those considered “little coordinated internationally” had fallen from 67 to 22 per cent between 1990 and 1996 (box figure 2).

Box figure 1. Transnationalization Indicators
(Percentage of responses received)

Box figure 2. Transnational Integration
(Percentage of responses received)


FDI Stock in 2004 (% of World Total)

SOURCE: World Investment Report, 2005, Table B.2, pp. 308-312

FDI Flows in 2004 (% of World Total)

SOURCE: World Investment Report, 2005, Table B.1, pp. 303-307
Figure 1.1.4. Cross-border links among major TNCs in the automobile industry, 1998

FIGURE 1  The Globalization of U.S. Business: Ownership vs. Trade

NOTE: Series are smoothed as 5-year moving averages.

SOURCE: U.S. Department of Commerce through Global Insight (series codes: ZA for after tax profit; GABRWR and ZARWRCT for after tax profit from foreign operations; GDP for GDP and X for exports).
FIGURE 2  Global Mergers and Greenfield Investment

*SOURCE:* The dollar value of cross-border mergers is computed from the UN *World Investment Report 2005*, Table I.1 p. 9. The dollar value of global fixed capital formation is from the World Bank *World Development Indicators 2006*. 