1 The Background to International Business

INTRODUCTION

International business, in the sense of trade across frontiers, indeed on a worldwide scale, has existed for thousands of years. But in the decades since World War II, there has been a burgeoning of international business activity on an unprecedented scale, and this has represented a significant change, not merely in terms of scale, but of the nature of the activity. It is largely with the nature of this change that this book is concerned, and above all, with the political background.

In the early decades following World War II, the most obvious phenomenon was the change in emphasis from exporting to local assembly or manufacture. Before World War II there were already a number of companies which would be described as multinationals, in the sense that they manufactured in different parts of the world. They were, however, comparatively small in numbers and scale. The first step in the internationalization of business after the war was simply a very rapid growth in fairly traditional terms, in the sense that more and more companies in one developed country set up their own, or bought over existing, manufacturing facilities in other countries.

In the last decade or so, however, there has been a rather subtle change in the nature and methods of international business. Although the proportion of the new activities, in comparison with the more orthodox multinational manufacturing or exporting, is still small, the future, arguably, lies with the new methods rather than with the older methods.

Why then are these changes coming about, and what exactly are they? It is, in practice, easier to identify the former than interpret the latter. The reason is that in the past multinational business activity has largely proceeded on a twofold basis. First, the transfer of activity was into other countries whose cultural characteristics, ideological views and level of technology were broadly similar to that of the original country: this meant that the Americans were investing heavily in Western Europe. Alternatively, where the move was into different cultures, ideologies or levels of technology, the balance of power was tilted in favour of the multinational or the country in which the
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multinational originated. The broad pattern of US direct investment in Latin America or European direct investment in Africa and South-East Asia depended implicitly on the realities of power and influence of the north over the south. Even the great ideological split between Western democracy and marxist societies, i.e. the East/West split, did not challenge that concept. The rules simply did not apply, because the conditions did not apply: Western enterprises did not, and could not, invest in marxist societies.

The only significant exception to this general pattern had been Japan. American occupation and tutelage after the war had profound effects on Japanese politics and culture, but did not open up the way for US economic penetration and domination. In a sense, Japan was to be a harbinger of future relationships and methods.

In recent years, this traditional pattern of Western investment has begun to change; first, the emphasis in investment is now switching to non-Western societies where other cultures, different ideologies and vastly different levels of technology exist. In some instances, marxist societies for example, the opportunities for foreign investment have appeared only recently: in many of the societies, both marxist and Third World, however, the balance of the power is no longer unequivocally tilted in favour of the foreign company. Moreover, it can no longer be assumed either that there is common ground about the objectives of industrial activities between the investing enterprise and the host government or culture, or that political dominance lies with the West, or the Western enterprises. New rules are emerging, and new methods of international industrial activity. This book is therefore as much concerned with speculation as to what is going to happen as with an analysis of what is presently happening. It is not too closely concerned with the mechanics of implementing present day business policy, but rather with identifying what are the characteristics of the changing external environment, against which business policy is being formulated.

What then are the factors which have led to the rapid internationalization of business in the post-war years?

a. Hostility towards extractive industries owned by foreign interests

In many parts of the world there is growing hostility to foreign investment in the traditional extractive industries, where a company based in an advanced industrial society secures supplies of raw materials by ownership of the production facilities. An almost