Geoffrey Jones
The End of Nationality?
Global Firms and «Borderless Worlds»

**ABSTRACT**

This article provides a historical perspective to current debates whether large global firms are becoming «stateless» and whether this is a historically new phenomenon. It shows that a great deal of international business in the nineteenth century was not easily fitted into national categories. The place of registration, the nationality of shareholders, and the nationality of management could and quite often did point in different directions. During the twentieth century such «cosmopolitan capitalism» was replaced by sharper national identities. However the interwar disintegration of the international economy led to the subsidiaries of multinationals taking on stronger local identities and becoming «hybrids». Over the past two decades, as the pace of globalization quickened, ambiguities increased again, especially if the focus is the «nationality» of products and services. Yet ownership, location and geography still matter enormously in global business.

The view that global firms were becoming divorced from the nation state began to be widely expressed as the pace of globalization accelerated from the 1980s. The consequences of the growing global integration of international production, the international dispersion of key functions such as technological innovation within multinational systems, the fact that some multinationals employ far greater numbers of people and sell far more products and services outside their home economy than within have all encouraged the hypothesis of a «borderless world», in the now classic words of Kenichi Ohmae, in 1990.¹

The limitations of the «borderless world» hypothesis have been much discussed in recent years. It has been shown that the importance of geography has not disappeared, and that trade and investment flows continue to display patterns which suggest that the world is more regionalized than globalized. Rugman has described the «regionalization» of production, while Ghemawat has talked of «semi-globalization».² However the scale and scope of a handful of global corporations has continued to prompt descriptions of how they have outgrown and dwarfed national states. Chandler and Mazlish have described them as the new Leviathans which «increasingly challenges the power of the nation-states and of regional entities.»³

A forceful exponent of an «end of nationality» hypothesis was the American political scientist Robert Reich. In «The Work of Nations», written over a decade ago, he put

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the case for «the coming irrelevance of corporate nationality». Reich noted that many of the best known names in US corporate history – CBS Records, Columbia Pictures, American Can, Pillsbury – were now foreign-owned, and went on to suggest that those who expressed fears of this foreign take-over were guilty of «outmoded thinking». The reason was that while in the past there were recognizable US corporations whose interests could be identified with those of the United States, contemporary multinationals bore only a superficial resemblance to their mid-twentieth century counterparts.

In the mid-twentieth century, Reich hypothesized, the nationality of a multinational had been easy to identify. US – and other – multinationals were large, integrated corporations with clearly defined boundaries, in which ownership and control lay indisputably in the home economy. Contemporary multinationals seemed different. They were organized more as a web than as a bureaucracy. Core corporations no longer planned and implemented the production of a large volume of goods and services. Rather they resembled a façade, behind which teemed an array of decentralized groups and subgroups continuously contracting with similarly diffuse working units all over the world. The value of such corporations lay in their problem-solving skills. The new organization consisted of webs of high-value enterprise joined by computers, fax machines and satellites reaching across the globe, whose «nationality» was more and more irrelevant.

Reich’s thesis had a political agenda. The point he sought to make was that a «foreign» corporation manufacturing in the United States contributed more to the American economy than an «American» company which manufactured most of its products abroad, and as a result it was inappropriate for the US government to pursue policies towards foreign-owned firms based on a «them» and «us» mentality. However there was also an explicit historical hypothesis in the Reich argument. This was that in the past firms had a clear nationality, but that in recent years fundamental changes in the organization of work have made the nationality of multinationals irrelevant. They have become stateless «global webs».

This article will provide an assessment of the historical evidence on the nationality of firms to examine whether there is anything truly «new» in the contemporary world. The subject is a large, as well as a complicated one, and so this article must be regarded more as one designed to open up the issue for scholarly debate than as an ultimate definitive statement. The article begins with some definitional issues, including the ways the economics and legal literatures have dealt with the issue of corporate nationality. It will then consider the evidence on different chronological periods since the nineteenth century.

Conceptualizing the Nationality of Multinationals

The economic theory of multinationals, which developed in the 1960s, took the nation state as its starting point, and firmly linked the explanation of multinationals to their national origins. After a long period when the assumption of mainstream neo-classical

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economic theory had made economic analysis of the multinational enterprise all but impossible, a major conceptual breakthrough came in the PhD thesis by Stephen Hymer presented at the Massachusetts Institute of Technology in 1960. This thesis got away from the previous treatment of multinationals simply as arbitrageurs of capital by asserting that foreign direct investment (FDI) involved the transfer of a whole package of resources and not simply finance.5

Hymer’s title – «The International Operation of National Firms» – emphasizes the importance of nationality in his model. Hymer argued that multinationals came from one country, and that they needed an «advantage» of some sort to operate and compete in unfamiliar foreign environments. Foreign countries were seen as difficult and risky locations to which firms would prefer to export if only there were not obstacles such as tariff barriers, and in which they had little chance to survive unless they held a big advantage over the locals. This view led to the argument that a foreign firm required «ownership advantages» over local rivals. These were seen as resting in management, technology, marketing skills or finance. In the eclectic paradigm developed by John H. Dunning, a firm could possess both firm-specific and/or nation-specific advantages, the latter resting on its country of origin.6 Thus the international strength of German multinationals in chemicals and pharmaceuticals was ascribed to Germany’s national system of scientific and technical education.

The significance of nationality has been stressed in other economic theories of the multinational. The product cycle model, first put forward by Raymond Vernon in the mid-1960s, argued that firms based in the United States had a greater propensity to develop new products because of high per capita incomes and high unit labor costs in their home economy. Vernon suggested that when a new product was developed in the US, a firm normally chose a domestic production location because of the need for close contact with customers and suppliers. As a product matured, long-run production with established technology became possible. When it became economic to invest abroad, Western Europe was the preferred location since demand patterns were close to the US while labor costs were lower. When the product entered its standardized phase, low costs became critical, and production would be transferred to developing countries.7

These authors assumed that the definition of nationality was a straightforward matter of identifying where the ownership and control of a firm resided. In practice, this has never been entirely straightforward. For example, the symbol of «British» banking in Asia, the Hong Kong and Shanghai Banking Corporation was founded in 1865 by a cosmopolitan mixture of British, American, German and Indian shareholders, while the first manager was a French national.8 The place of registration and head office of the bank remained in Hong Kong until 1991, when domicile was shifted to Britain, but all the senior management of the bank were British nationals born in Britain and much of the shareholding was held there. This article will provide many other examples of ambiguous nationality in the history of multinationals.

5 Geoffrey Jones, Multinationals and Global Capitalism. From the Nineteenth to the Twenty First Century, Oxford 2005, 7f.
8 Frank H. H. King, The Hong Kong Bank in Late Imperial China 1864-1902, Cambridge 1984.
Lawyers have been required to seek more precise definitions of the nationality of multinationals. There remains no single legal test of corporate nationality, however, and a variety of different criteria have been employed. In national legal systems derived from Anglo-American common law, the state of incorporation is the main test of nationality. However in most civil law systems in Continental Europe and other countries influenced by them, the test is that of the company’s «seat» (siège social) defined as the place where the central administration and direction is located. The two tests lead to similar results in many cases, but where the place of incorporation does not coincide with the place where the direction is actually exercised, the latter is normally taken in many Continental legal systems.

However there are also other legal tests of nationality. Lawyers have sometimes used the nationality of the shareholders who «control» the operation as a test. This criterion is especially employed in wars and other politically tense situations. The nationality of the senior management or the country where most of the business is done is other possible legal tests. The former would redefine the Hong Kong and Shanghai Banking Corporation as «British» between 1865 and 1991. In international law, the rules governing the nationality of corporations remain far from settled, for it has developed the concept of nationality almost exclusively in the context of individual persons, and there remain no rules of international law governing the nationality of goods other than airplanes, ships and historical cultural artifacts.9

Multinational Nationality in History

Evolutionary Perspectives

Business historians have generated rich empirical evidence on the history of multinationals. The origins of the modern multinational enterprise can be traced back well beyond the nineteenth century, as one book on Ancient Multinationals provocatively suggests.10 However the globalization of business accelerated rapidly in the nineteenth century. Improved transport and communications enabled firms to both make and sustain direct investments beyond their own countries. If current estimates of the size of world FDI in 1913 are accepted, then it represented around nine per cent of world output in 1913. This proportion declined subsequently and was still only around 4.8 per cent in 1980, before rising sharply again to reach twelve per cent by 2000.11

There was a strong national skewing in the sources of FDI. In 1914 the United Kingdom alone accounted for 45 per cent of total world FDI. Subsequently the United States replaced the United Kingdom as the world’s largest outward investor, but these two countries plus the Netherlands were disproportionately important as home for multinationals for much of the twentieth century. Between 1914 and 1980 these three countries accounted for between two thirds and three quarters of world FDI. Apart

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10 Karl Moore/David Lewis, Birth of the Multinational, Copenhagen 1999.
11 Jones, Multinationals (cf. n. 5).
from the Dutch, the Swiss and the Swedes also became persistently large outward multinational investors. In contrast, other small European economies, including Norway, Denmark, Austria, and Portugal, displayed much weaker propensities to engage in direct investment.\textsuperscript{12}

There were equally strong nationality influences on the location of FDI. US firms invested disproportionately in the neighboring countries of Mexico and Canada, just as when Japanese companies began to make direct investments they were skewed towards Asia. Within Europe, the firms of most countries had strong historical preferences for investing in neighboring countries. There is little doubt that the physical location of the country in which a firm is based has exercised systematic influence on location and decisions. The reason for this influence is also straightforward: firms seek to reduce risk by investing in geographically (or in some cases culturally) close environments.\textsuperscript{13}

\textit{Ambiguities in the First Global Economy before 1914}

If the influence of nationality on international business appears strong when the sources and location of FDI is examined, at the level of the business enterprise ambiguities begin to be apparent. In the nineteenth century a great deal of international business activity turns out to be hard to categorize in national terms.

Many ambiguities arose from the fact that in an era of high migration, people moved across borders as well as capital. The founders of numerous iconic American businesses were emigrants, including William Colgate, William Procter and James Gamble – the founders of present day consumer goods giants Colgate-Palmolive and Procter & Gamble – and the steel magnate Andrew Carnegie. While their firms merged into the emergent American business culture, elsewhere their equivalents retained a more «hybrid» feel. This was the case with the Nobel oil business in pre-Revolutionary Russia. Members of Sweden’s Nobel family settled in Russia in the 1870s and transformed the Russian oil industry by introducing modern technology. The resulting company was managed by family members, but its headquarters and decision-making was located in Russia and there was no control from a parent company located in Sweden. Its equity was held in various Western European countries, as well as in Russia, and German banks were the single most important international shareholder.\textsuperscript{14}

Ambiguous nationality was almost the norm rather than the exception in the extensive international business in services outside Western Europe and North America. In Latin America and some Asian ports much merchant and financial activity lay in the hands of what one author has termed a «cosmopolitan bourgeoisie».\textsuperscript{15} This was composed of highly ethnically mixed people with links back to their home countries as well as in the host country. They are often described as, for example, «Anglo-Argentines» or «German-Argentines». It is often difficult to classify the nationality of their ventures. It is evident, for example, that a substantial percentage of the so-called FDI in

\begin{itemize}
  \item \textsuperscript{12} Jones, ibid.
  \item \textsuperscript{15} Charles Jones, \textit{International Business in the Nineteenth Century}, Brighton 1987.
\end{itemize}
late nineteenth Argentina was made by Europeans who finally never returned to their home countries.

The nationality of many international businesses built by entrepreneurs who originated beyond Western Europe or North America was frequently ambiguous. During the nineteenth century ethnic Greek merchant houses created extensive businesses stretching from Russia through the Mediterranean to Western Europe. Few if any of these businesses were managed from the newly created and impoverished Greek state. This highly cosmopolitan tradition persisted in Greek shipping companies, which frequently used London – and for a time after World War II New York – as operational centers, even whilst retaining strong Greek ethnic identities and drawing their seamen from closely defined ethnic and kinship networks. In nineteenth century South-East Asia, ethnic Chinese created large businesses which spanned British, Dutch and French colonial boundaries and independent states such as Thailand. They sometimes sent remittances back to and retained familial links with China, but were not controlled from that country.

The ambiguous nationality of ethnic Chinese business was not atypical in Asia before 1914. It was quite common for entrepreneurs of particular ethnic or religious origins to build business which took advantage of the legal and other infrastructures created by European colonial regimes, but which spanned such borders rather than reflecting them in terms of the location of ownership and control. Consider the case of the Sassoons, a prominent Baghdad Jewish merchant family who moved to Bombay in British India in 1832 to escape persecution from the Ottoman Empire. They established a mercantile business which stretched over large parts of Asia, but locating their operations in the British-controlled parts in South and South-east Asia. They formed close relations with the British imperial structures, but the Sassoon firms were managed almost exclusively by Jews of «Baghdadi» extraction. The Sassoons were extremely successful selling opium to China, rapidly gaining market share from the British merchant houses which had formerly dominated the business. In time the family moved their base to London, with one member receiving a British knighthood in 1872. By the 1880s the Sassoon companies began to record commercial translations in English rather than Judaeo-Arabic, and to adopt British accounting practices in preference to their traditional methods, but they continued to function on grounds of shared kinship ties and personal trust with Baghdadi co-religionists. They could legitimately over the space of five decades have been described as Iraqi, Indian, or British business.

In the environment before the First World War where exchange controls were nonexistent, firms were free to seek funds worldwide, and this often led to discrepancies between the nationalities of a firm’s ownership and control. Foreign firms regularly
sought funds in London, the world’s largest equity market. An example was a group of Canadian companies which made large investments in Latin America utilities from the 1890s. The largest of these companies was Brazilian Traction which established a large electricity generating, water, gas and eventually telephone business in Southeast Brazil which – by the late 1940s – employed 50,000 Brazilians and controlled 60 per cent of the country’s electricity, and 75 per cent of its telephones. The driving force behind this venture was an American engineer, and the key purchasing functions were in New York. However the headquarters were in Toronto. And most of the stock was issued on the London market.19 This large business could, according to different criteria, be identified as a Canadian, British or American venture before 1914.

An interesting comparison can be made with another large company, this time ostensibly British. The Russian General Oil Corporation was founded as a British Company in 1912. It consolidated a variety of oil companies active in Russia and became a very large company as a result with, by 1916, a total equity of £14 million. The head office was in London. In fact, behind the paper facade, there was little if anything British about the company. The management of the Corporation was carried out in St. Petersburg by the two Russian banks which set it up. The London flotation was a device to raise the profile of the Corporation at foreign stock exchanges and, if necessary, attract foreign capital from abroad. In fact these ambitions were not realized, and a number of attempts to sell the shares of the Corporation on the London Stock Exchange failed.20 This case illustrates the fragility of current historical estimates of FDI which use the issued capital of companies as a proxy for FDI.21 The Russian General Oil Corporation would be included as a large British oil investment using this methodology, while in practice there was nothing British about the firm apart from its place of registration.

There are many cases of this phenomenon which, taken together, cast doubts over existing FDI estimates – and the strong national patterns they suggest. The case of Britain – apparently the source of up to 43 per cent of world FDI in 1914 – is instructive. A considerable amount of British FDI in Latin America, Asia and Africa was undertaken by trading companies which, over time, diversified from trade into resource exploitation, infrastructure and processing. These diversification strategies were achieved by establishing new «free-standing» companies, in which the parent trading company often held only a small share of the equity. However this equity relationship between the new company and the parent trader formed only one of several connections which included flows of loans and deposits, cross-directorships and management contracts.22

The result was a network form of enterprise whose «nationality» depends on the kind of criteria used. The trading companies established both British and locally regis-
tered companies. The latter, which would typically have a mix of shareholding by expatriates, «locals» and others, are excluded from estimates of British FDI, but the place of registration criteria provides no indication of the nationality of ultimate control, which was exercised from Britain by linkages other than equity. After 1914 these ultimately British controlled but locally registered companies became a vehicle for local business groups to capture control, because if they could buy enough shares and concentrate their shareholdings, they could ultimately remove the British managers. This phenomenon was evident in interwar India when Marwari business groups brought into «British» companies in Calcutta; in Malaysia in the 1960s and the 1970s when control of «British» firms such as Sime Darby was acquired by local interests; and in Hong Kong in the 1970s and 1980s when «British» firms like Hutchinson Whampoa and Wheelock Marden were acquired by local Chinese. In these cases, companies retained the same place of registration, but the ultimate nationality of control shifted.

There were also plenty of ambiguities concerning the nationality of enterprises even in Western Europe before 1914. The predecessor to Alusuisse, Aluminium Industrie A.G., was ostensibly Swiss, but had a strong German influence before and after 1914.23 The role of European «mixed» banks in international business provides an example. During the nineteenth century French, Belgian and other European banks took strategic equity holdings in numerous foreign industrial enterprises, typically with partners, often with partners from other countries, with the result that the «nationality» of the consequent enterprise is very unclear. The managerial and financial influence of Paribas in the early development of Norway’s Norsk Hydro renders it, by most modern definitions, a case of French FDI in Norway, although there was also a Swedish dimension through Wallenburg investment, and there was also Norwegian control over some areas of the company’s business.24

The Norsk Hydro story was not exceptional. In the late nineteenth century the German electrical company, Siemens and AEG invested in public utilities in southern Europe and Latin America using financial holding companies. The German big banks were investors, but Swiss, French, Belgian and Italian links also took equity, and they often had their legal seat in Switzerland or Belgium. These substantial and capital-intensive ventures might well be best regarded as mixed nationality ventures rather than belonging to a single country.25

A final level of complexity relates to the use of the nation state as a unit of analysis. FDI is defined as capital flows across national borders, but this is not as straightforward as it seems. As noted earlier, multinationals have always tended to invest in neighboring countries in order to reduce risk. Wilkins and Schröter have termed this «nearby» investment. In nineteenth century Europe a large number of German, Swiss, French and other investments were literally «nearby» in the sense that they were just over the

border. An extreme example was provided by the Swiss dyestuffs companies in Basle which established plants within walking distance over the German border in Grenzach. Rather similarly, Ford's first foreign factory was in Canada just across the Detroit River from its US base. A case could be made for regarding regions, rather than nations as the valid unit of analysis, although even highly geographically proximate investments involved firms crossing national judicial, fiscal and other borders.26

Certainties in the Era of War and Nationalism 1914-1945

In many respects the complexities of the «cosmopolitan capitalism» during the first global economy gave way to much sharper definitions of nationality as the new century progressed. The First World War was important in this respect. The warring countries investigated who really «owned» the companies registered in their countries, and who really «controlled» companies whose names sounded respectably local. The firms ultimately discovered to be owned by «enemies» were sequestrated on both sides and transferred into local hands. For example, one of Britain’s large petroleum distribution companies before 1914 – the British Petroleum Company – turned out to be largely controlled by the Deutsche Bank. The business was sequestrated and sold to the Anglo-Persian Oil Company – in which the British government had taken a 51 per cent shareholding in 1914 – whose name it eventually adopted in the 1950s.27 The phenomenon of sequestration on the basis of ultimate «control» was new.

The new importance of nationality in international corporate life, however, provided incentives for firms to shift their nationality for political or tax reasons, or else disguise it. An example of the former was Italy’s Pirelli, which in 1920 placed all its foreign operations into a new financial company – Compagnie Internationale Pirelli – registered in Belgium. However the Belgium company was ultimately controlled by the Pirelli family. In 1937 Pirelli Holdings was founded as a Swiss company with its seat in Brazil, and by 1940 all Pirelli’s overseas operations were controlled by it. The Pirelli family held less than 30 per cent in the Swiss company, but nonetheless exercised managerial control over it. This arrangement proved most convenient during the Second World War, when the Allies accepted that it was a Swiss company and it escaped sequestration.28 The danger of «sequestration» led to deliberate «cloaking» or keeping the fact of foreign ownership secret. The largest Norwegian interwar iron ore mining company, AS Sydvaranger, was secretly owned by Germany’s Vereinigte Stahlwerke.29

A number of firms became «migrating» multinationals, or firms which shifted their nationalities in terms of place of incorporation, seat, or nationality of shareholders. These shifts were real, and not cosmetic as in the case of Pirelli or the «cloaking» discussed above. The twentieth century saw several migrations of large firms. An early

example was British American Tobacco (BAT). This venture was founded in 1902 as a result of a truce between the previously warring American Tobacco Company and Imperial Tobacco of Britain. The US market was reserved for American Tobacco and the British market for Imperial Tobacco, while the new BAT was allocated tobacco production and marketing in the rest of the world. It pioneered an extensive multinational manufacturing operation and sold 12 billion cigarettes in China alone by 1914. BAT was British registered, but initially US controlled and managed. However the US influence was diluted after American Tobacco was ordered to be dissolved on anti-trust grounds in 1911, and by the early 1920s British managers and shareholders were dominant. BAT had effectively «migrated» to Britain, and it has remained one of Britain's largest multinationals.30

A far smaller example of a «migrating» firm is provided by Rolex, the luxury watch company. The German-born founder of the company, Hans Wilsdorf, became involved in the long-established watch industry in Geneva in 1900, and moved to London three years later to explore Europe's largest market for watches. In London he met a wealthy British lawyer and private investor and they launched a watch trading company. While in London Wilsdorf developed a vision of a watch as more than a novelty largely worn by women, but as reliable and accurate timepiece. He contracted to buy wristwatch movements from a firm in Geneva, and invented the brand name «Rolex» allegedly whilst riding on the top deck of a bus in London. The company was renamed Rolex when the outbreak of the War rendered German names unpopular. When the British government levied a tax on watch-related imports to fund the war, this made Rolex's import-based assembly-based business model unsustainable. Consequently, in 1916 Rolex moved to Switzerland. Rolex grew as a major component of the Swiss luxury watch industry. Wilsdorf himself remained a naturalized British citizen resident in Switzerland until his death in 1960.31

The nationalism seen in the interwar years intensified debates on the nationality of both firms and their products. Regarding the latter, France was exceptional in interwar Europe in requiring all imported goods to specify their national origins. In Germany, the courts were left to decide the nationality of goods following a law passed in 1909, but they struggled to decide whether the criteria was goods made by German-owned companies or goods made in Germany. By the late 1920s they had largely moved to the latter: Singer sewing machines manufactured in Germany were classified as national. After 1933 the Nazi regime banned foreign firms calling themselves German in their names, but their locally made products were classified as German.32

Most foreign companies in Nazi Germany were quite successful in making changes to their employment and other practices to be regarded by the regime as «national» firms. Claiming to be authentically German became a source of competitive advantage. Opel, acquired by General Motors in 1929, placed great emphasis on its German identity.33 Ford, whose American parent operated a highly centralized organization, was

33 Ibid, 216.
slower to assert its national claims, although from the late 1930s its German business became closely aligned with Nazi plans. All foreign-owned firms in Nazi Germany found themselves in ambiguous situations as they sought to survive in a hostile political and moral climate, and in some cases (such as IBM) had pro-Nazi local chief executives. Survival depended on stressing their German identities: the degree to which firms collaborated fully with Nazi political goals varied. Nonetheless there was often a gap between rhetoric and reality. Despite some Nazi rhetoric which was distinctly anti-cosmetics, the prominent US cosmetics firm Elizabeth Arden was able to use the same advertising in Germany as in the United States, albeit with subtle modifications. Arden continued to highlight its American connections until the outbreak of the War, when its location in fashionable foreign cities was removed from advertising.

If the nationalism of the interwar years pushed the affiliates of foreign firms to become more «national», it is worth noting that there were some noteworthy exceptions to this trend. Unilever was created by an Anglo-Dutch merger in 1929. This was only the second attempt, after the British and Dutch merger which created Shell in 1907, to create a bi-national corporation. The new consumer goods giant, which was probably the largest company in Europe when it was created, proved a durable creation despite the nationalist pressures of the 1930s and the Second World War. Shell itself survived the transition in the mid-1930s from its charismatic (and increasingly pro-Nazi) Dutch founder, Henri Deterding, to a new generation of British and Dutch managers. A third bi-national endeavor was created by a merger of Dutch and German rayon companies to create the Algemeene Kunstzijde Unie in 1929.

The numerous international cartels in the interwar years also raised new complexities concerning nationality. International cartels became extremely important in many primary commodities and in manufacturing industries characterized by a small number of producers and relatively slow-growing markets, such as chemicals, engineering or iron and steel. In these industries, cartels were used as an alternative to FDI, or when FDI was impossible, and exercised a decisive influence on prices and output.

In some cases international cartels can be identified with a nationality in that the firm of one country had sufficient influence to control decisions. In the interwar electric lamp cartel, GE of the US never formally joined the cartel but was able to exert...
cise a decisive influence on its policies due to its strong patent position and equity shareholding in companies which were members. The international dyestuffs cartel was similarly more or less controlled by Germany’s IG Farben. But in most cases the «control» of international cartels lay in the hands of several parties from several countries. Sometimes the cartels had a «seat» in countries with discrete or liberal regulations, such as Belgium and Switzerland, but this gave no indication where control actually rested. The Electric Lamp Cartel, for example, was administered by a Swiss company – Phoebus S.A. – but in no sense can its «control» be said to have rested in Switzerland.


40 Harm G. Schröter, Cartels as a form of concentration in industry; the example of the international dyestuffs cartel from 1927 to 1939, in:...
ucts and contribute to the industrial development of Norway. The ITT affiliate emphasized to the government the benefits of its position within the ITT network.\footnote{Sverre A. Christensen, Switching Relations. The Rise and Fall of the Norwegian Telecom Industry, BI Norwegian School of Management PhD thesis 2006.}

As foreign-owned affiliates evolved within their host economies, they often grew as large businesses with distinctive characteristics in their own right. Over time they often assumed many higher order activities, including technology and human resources. They were in effect «hybrid» organizations reflecting a mixture of the characteristics of their parent and their host economy. This was certainly evident of the US subsidiaries in postwar Europe. There can be no doubt that in their organization, technology and culture an American influence was evident. The best indication of this is that in almost every European host economy the productivity performance of US manufacturing affiliates was superior to that of indigenous competitors. However the strong national identities of these subsidiaries, alongside the fact that the transfer of US practices was hardly ever complete, meant that they were «hybrids» in their organizational structures and practices, rather than replicas of their American parents. The same observation has been made about Japanese owned affiliates in the United States in the 1990s.\footnote{Tetsuo Abo (ed.), Hybrid Factory, New York 1994.}

The autonomy of national subsidiaries began to slowly lessen in the 1960s when a few US corporations began to integrate their North American and European operations. A key development was IBM’s System 360 computers, launched in 1964, and designed to be manufactured and sold worldwide, which necessitated a much greater degree of international co-ordination than seen previously. During the 1950s IBM’s foreign subsidiaries were hardly coordinated at all. Twenty years later the firm had two regional production networks, in Europe and North America. In the mid-1960s Ford who decided to integrate its manufacturing on a regional basis. Beginning with the integration of the US and Canada in 1965, in 1967 Ford of Europe was created which began to integrate previously autonomous national affiliates. Previously Ford’s major European subsidiaries in Britain and Germany had operated virtually independently, and produced unrelated passenger car models. The first Europe-wide model – the Capri – was launched in 1969. European-owned multinationals were often much slower at regional integration. Unilever’s struggle with the close integration of its European affiliates continued until well into the 1990s.\footnote{Jones, Renewing Unilever (cf. n. 41)} While US corporations created European corporate entities, many European managers – like their politicians – remained pre-occupied with the differences between European countries rather than the similarities of their markets.

The continuing exchange controls and other restrictions of this era continued to prompt the occasional multinational to «migrate». In 1976 ANZ Bank, one of the largest domestic banks in Australia, shifted domicile from Britain to Australia. The bank was a legacy of the British overseas banks established in the nineteenth century to operate in British colonies. ANZ had its Board of Directors, its Head Office and a substantial international banking business based in London, but no domestic British commercial banking business, while some 95 per cent of the shareholders were residents of the United Kingdom. However British exchange controls during the 1970s prevented

\footnote{Tetsuo Abo (ed.), Hybrid Factory, New York 1994.}

\footnote{Jones, Renewing Unilever (cf. n. 41)}
the bank from raising funds or spending Sterling outside the Sterling Area, thus block-
ing the management’s ambition to extend operations to Asia and the United States. In 1976 ANZ resolved to emigrate to Australia. The old London board of directors was dissolved and a new one in Melbourne established. By 1981, 70 per cent of the shares were listed on the Australian share register, and the bank had become thoroughly Aus-

Nationality in the Second Global Economy since 1980

Paradoxically, the global integration strategies which were pursued by more multina-
tionals as a new wave of globalization intensified from the 1980s may have reduced

ingness to locate different parts of the value chain in different locations certainly made
the nationality of individual products highly ambiguous. Integrated production systems,
outsourcing and the use of contract manufacturing made labels such as «Made in
America» increasingly meaningless, because such products and services may have been
assembled from components from a dozen or more countries. For example, over the
last decade leading cosmetics firms such as L'Oréal and US-owned Estée Lauder have
contracted the manufacturing of color cosmetics and other products to contract man-
ufacturers such as the Milan-based Interkos.46 In these cases, it is primarily the origins
of a brand name which brings a French or American identity to their products.

During these decades it became increasingly common for firms to buy and sell 
brands which embodied strong national identities. In branded consumer products such
as alcoholic beverages, this was a major driver of mergers and acquisitions.47 In the
personal care industry, where brands often embodied strong national images, the national-
ity of the ownership of firms and the brands they sold became divorced. During the
1980s Unilever, for example, acquired American brands such as Pond's Cream, Elizabeth
Arden, and Calvin Klein Cosmetics and marketed them worldwide, and though the latter
two were both sold between 2001 and 2005. While the former reverted to American
ownership, the latter was acquired by Coty Inc, a New York-based affiliate ultimately
owned by the German-based family of Johann A. Benckiser.48

A more striking case was L’Oréal, which remained a predominantly French company
until the 1970s. A majority of its sales were made in France, and from brands such as L’Oréal and Lancôme whose origins and image lay in France. However, over the follow-
ing two decades it acquired a number of American companies and brands, including Red-
ken and Matrix in hair care, Maybelline in cosmetics, and Soft Sheen and Carson in ethnic
products. It offered consumers worldwide a choice of either French or American beauty
ideals embodied in brands originating from those two countries. During the new century
it added Japanese and Chinese brands – Shu Uemura and Yue-Sai – to this portfolio.49

In financial services, the creation of the Euromarkets in the 1960s began a process
whereby a great deal of financial intermediation was divorced from the nation states
and their regulators in which it was located. This was true of the City of London,
where most financial transactions were handled by non-British institutions and did not
involve the domestic economy. Even more extreme examples were provided by small
islands which functioned as offshore financial centers, such as the Cayman Islands in
banking or Bermuda in insurance. This played havoc with official FDI figures. For
example, official figures reported Hong Kong's outward FDI stock as $370 billion in
2002 – or larger than that of the Netherlands, but a breakdown of this amount showed
one half was invested in the British Virgin Islands, a self-governing British colony in the
Caribbean with a population of 23,000 persons.50

46 Chris Hendry/Nigel Courtney/Clive
Holtham, Unlocking the Hidden Wealth of orga-
nizations: The Development and Communication of Intangible Assets, Cass Business School
47 Teresa Lopes, Brands and the Evolution of Multinationals in Alcoholic Beverages, in:
48 Jones, Renewing Unilever (cf. n. 41)
49 Geoffrey Jones/David Kiron/Vincent
Dessain/Anders Sjoman, L'Oréal and the
Globalization of American Beauty, Harvard
50 Jones, Multinationals (cf. n. 3), 248ff.
The above example was part of a wider problem of interpretation of national-based definitions of FDI. For example, during the 1990s there were huge flows of FDI between Hong Kong and China. Hong Kong was a British colony before July 1997, and so technically this investment was FDI. In practice, almost all of the investment went to the southern Chinese provinces with which Hong Kong’s economy was progressively integrated. The incorporation of Hong Kong into China, albeit under the «one country, two systems» rubric, made the national classification of this investment even more problematic, especially as most studies suggested that much FDI ostensibly from Hong Kong originated in China, but was «round tripped» for fiscal reasons.51

It is possible that the security and other shocks of the early twenty-first century are leading governments and other bodies to again pay more attention to the nationality issue. Developments in the United States, such as the peremptory expulsion of foreign firms from the S&P 500 in 2002 and an extraordinary public outcry four years later when a Dubai company acquired a British company which operated ports in the United States, might point in this direction.

**Conclusion**

This article has argued that the view that in the past the nationality of multinationals was clear, while for contemporary multinationals corporate nationality is both unclear and irrelevant, can be rejected. There have always been a range of ambiguities and complexities involved in the issue of the relationship between multinationals and nationality, even if the nature of complexity and ambiguity has shifted over time.

Historically, the influence of nationality on international business is strongest if attention is focused on FDI estimates. These show, for example, that firms of some countries are disproportionately more likely to invest abroad than the firms of other nationalities. It is also evident that the direction of FDI flows was heavily influenced by nation-specific factors. However, once disaggregation occurs it is clear that a great deal of international business in the first global economy of the nineteenth century was «cosmopolitan» and not easily fitted into national categories.

After 1914 cosmopolitan capitalism was replaced by sharper national identities. It became politically important to be seen as a «local» firm, and this has largely remained the case until the present day. The interwar disintegration of the international economy encouraged national subsidiaries of multinationals to emphasize strong local identities and become mini-replicas of their parents. This meant that while from a US perspective Ford and IBM may have looked unequivocally American in appearance in the 1950s and 1960s, from host country perspectives they may have resembled «hybrids» with a strong local input. There is an urgent need for further research on the nature of «hybridization» of foreign-owned affiliates.

Over the past two decades, the pace of globalization has quickened. To date, nationality has remained an important influence on the composition of boards and senior management and the location of higher value added activities such as R&D. The sec-

ond global economy has not seen the recreation of the «cosmopolitan capitalism» seen in the first. This reflected the proliferation of nation states – there are now nearly 200 – each with its own laws and regulations, as well as the on-going tight restrictions on labor mobility. However, global firms have increasingly traded in the brands and other assets from numerous countries, while technological advances which permitted different parts of the value chain of production and services to be located in different places meant that the nationality of products was thoroughly ambiguous.

Address of the author: Prof. Geoffrey Jones, Harvard Business School, Baker Library 175, Boston, MA 02163, United States, Email: gjones@hbs.edu.