The Routledge Companion to the Makers of Global Business

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Government and regulators

Publication details

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Published online on: 22 Jul 2019

Accessed on: 17 Aug 2023

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In January 2017 *The Economist* published a leading article entitled ‘In Retreat: The Multinational Company is in Trouble’ (*The Economist* 2017). It noted: ‘The retreat of global firms will give politicians a feeling of greater control as companies promise to do their bidding’. Talk of the end of an era for the global firm may be premature but it does capture the commonly perceived tension between national governments and multinational enterprises (MNEs). However, the standard account is of the rise of MNEs and the consequent decline of the nation-state and national governments. Certainly, the first time *The Economist* is believed to have referred to MNEs, that was the approach they took. ‘Companies Outgrow Countries: A New Kind of Economic Animal – Mastodons of the Future? – Is Displacing Growing Weight Throughout the World Economy’ was the title of a leading article which went on to highlight ‘the inherent flexibility towards national sovereignty that internationally spread private companies possess’ (*The Economist* 1964). Since the 1960s multinational enterprise was increasingly viewed as the future and nation-states (and their governments) as ‘just about through as an economic unit’ (Kindleberger 1969: 207 and more recently Ohmae 1990 and Strange 1996). In the most extreme form of this zero-sum power game between multinationals and governments democracy is seen as being replaced by the quiet power of big business (for example Hertz 2001; Korten 2001; George 2015).

This strand of argument is extensive, reflecting popular concerns about the power of big business but has mainly taken the form of empirical studies, usually in the field of political economy, and dealing with the period since the Second World War. However, the starting point for this oeuvre was in international business studies. The landmark publication here was Raymond Vernon’s *Sovereignty at Bay* (1971). In this seminal volume Vernon, ‘the father of research on relations between nation states and MNEs’ (Eden 2000: 335), set out that there would inevitably be conflicts between MNEs and both home and host countries. However, he did not see this as a simple zero-sum game in the way that many later writers have done. In *Sovereignty at Bay* and in subsequent works (1977 and 1998), Vernon did not foresee the demise of the nation-state. Rather he saw ‘two systems, … each legitimated by popular consent, each potentially useful to the other, yet each containing features antagonistic to the other’ (Vernon 1991: 191): it was not just nation-states whose sovereignty was at bay but also that of multinationals. What mattered, in Vernon’s view, was the perception of a loss of sovereignty by nation-states, not that this was necessarily a reality (Boddewyn 2005: 37; Kobrin 2001: 183).
Despite such early engagement with this issue, most strands of the international business literature, in contrast to that in political economy, developed to say little directly about the relationship between MNEs and governments or their regulations (an exception is John Dunning (see Dunning and Lundan 2008)). Building on Stephen Hymer’s (1976) work, the focus has been on internal explanations for the existence and growth of multinational enterprise (Fitzgerald 2015: 2–4). Government, its policies and regulations in this respect are exogenous variables to which MNEs respond and are therefore extraneous to many international business (IB) models of multinational enterprise.

There are issues with this separation. After all, at the heart of what distinguishes ‘international business’ from ‘business’ more generally is the issue of territoriality (Grosse 2005: 3). These enterprises are and have been multi-national or trans-national and it is this dimension which defines them. Given the centrality of governments to the very notion of the nation-state, what governments are like, how they act, how they change over time and how they perceive MNEs affects the very nature of MNEs. Indeed, the merging of two nation-states might well turn some MNEs into straightforward enterprises. Likewise, it is governments that establish the nature of property rights within their territorial domains, a key aspect of political risk (see the chapter by Wubs and Kurosawa in this volume).

However, in recent years there have been signs of a greater engagement with international business–government relations (IBGR) from management scholars, alongside a recognition of their importance (see Boddewyn 2016 for an overview). Building on the work of David Baron (1995), non-market strategy is now recognised as a key element of corporate strategy and of its study (Lawton and Rajwani 2015). The growth in studies of corporate social responsibility (CSR) (for example Barton et al. 2016) and corporate political activities (CPA) (for example Oliver and Holzinger 2008; and Henisz and Zelner 2010) is evidence of this development. Much of this literature examines the relationship between MNEs and emerging economies on the one hand in terms of dealing with the political risks faced by MNEs and, on the other, the potential for exploitation by MNEs (Lawton et al. 2012; Lawton et al. 2014). However, in many respects a focus on direct, quantitative effects of MNE activities has predominated, such as the impact of political donations on policy development (for example Bonica 2016). This may provide some minimum benchmark of the effectiveness of MNE corporate political activities but seems rather narrowly conceived.

As will be shown, business historians have explored many of these issues already, providing an excellent opportunity for a mutually beneficial conversation. In this respect, there are four relevant contributions that have emerged from the work by business historians. First, business historians, taking a more embedded view of the position of multinationals in society, highlight the pivotal role of governments, not just in implementing policies which impact directly on MNEs, but also in creating and developing the general framework in which MNEs operate. From this, and second, much business history research has highlighted the importance of context, complexity and contingency here. Third, and related to this, business historians have been able to provide rich and detailed accounts of the interaction of business and governments in the form of CPA, like lobbying, in a variety of political contexts. They are able to explore these in a more nuanced and sophisticated way than much of the current CPA literature. Finally, and most importantly, the IB literature has been heavily influenced by its roots in the experience of post-Second World War US manufacturing multinationals. The historical dimension provided by business historians has been important here in showing how widespread multinationals were before the Second World War. More relevant here, is the secondary finding that in the context of rising nationalism, interactions between MNEs and national governments were at least as visible before as after the Second World War. Likewise, the influence of empire and the consequences of empire have been highlighted, though again this influence was not insuperable.
The chapter begins by elaborating on the contribution of an historical perspective to the making of global business to our understanding of the relationship between multinationals and governments. Two areas of study are then explored in more depth to highlight the two-way and complex nature of the relationship. One examines the relationship between MNEs and government in the context of European integration, that is as a move away from national levels of governance; the other considers the highly topical and controversial subject of tax avoidance and tax evasion. Finally, there is space for some brief conclusions.

**Business history literature**

The early IB literature focused on US manufacturing multinationals and it was from studying their experiences that theories of multinational enterprise emerged. Business historians have taken a broader perspective. While they have contributed to our understanding of American multinationals at this time (for example Wilkins 1974; Rollings 2011), this has been only one of their fields of interest. One of the most obvious contributions by business historians was to show the existence of MNEs in other sectors of the economy, notably the service sector. This is relevant to IBGR because the service sector is often more regulated than manufacturing. Geoffrey Jones’s (1990, 1993) work on banks as multinationals led the way here. Building on this, others have examined a range of service sectors. Thus Wilkins (2009) has shown the impact of regulation on the development of multinationals in the insurance industry. Similarly, Calvo (2008) and Clifton et al. (2011) have shown how differences in regulation impacted upon the internationalisation of telecommunications companies both before and after the Second World War. A different form of interaction with government has been found in the construction industry where government was often involved in purchasing (Linder 1994; Donzé 2015). In the case of the international hotel industry, government influence was felt through the encouragement of US governments to stimulate international travel and indirectly by international governance mechanisms, in this example the Convention in International Civil Aviation (Quck 2012).

Similarly, while the IB literature tended to concentrate on the internal dynamics of MNEs, business historians have readily acknowledged the importance of governments in determining the development of MNEs. Thus Colli (2016: 9) has recently written: ‘Despite a very diffused perception of globalization as being incompatible with the role of national governments, the latter played and continue to play a pivotal role in the process of the internationalization of enterprises and entrepreneurs’. Such sentiments are readily found in other core business history texts (Jones 2005: 201; Jones 2008: 154). However, it is perhaps most thoroughly illustrated in Fitzgerald’s recent contribution, *The Rise of the Global Company* (2015). Here, Fitzgerald (2015, 18) addresses many of the aspects of the relationship between MNEs and governments raised in the business history literature: ‘Through law, taxation, subsidies, regulation, and policies, the state has been a strong influence on multinational business strategy, corporate organization, and employment’. That MNEs are embedded in a political and regulatory context has been viewed by business historians as crucial to understanding and explaining their development.

Much of the IB and political economy literature tends to focus on the nature of the relationship between MNEs and national governments in rather simple dichotomies – conflict or cooperation, or, who has more power? In contrast, business historians have highlighted that these relationships are more fluid and contingent, and, as they change, so this required MNEs to adapt as best they could to those changes, even if this meant accommodation with authoritarian political regimes (Kobrak and Hansen 2004; Wubs 2008). Donzé and Kurosawa (2013) suggest from the example of Nestlé in Japan that European multinationals tended to be more pragmatic and organisationally flexible than their American counterparts in dealing with difficult
political environments. But this was not simply as part of some recalibration of the balance of power between the MNE and the home and/or host government: ‘Business success is not only about power, it is also about navigating in politicized environments, in which economic considerations do not always come first’ (Sandvik and Storli 2013: 130–1). Equally, this is not a simple two- or three-actor model of MNE, host government and (sometimes) home government as the IB literature often tends to assume. Just as the MNE is not a monolith so the same is the case for governments, as the political science literature has long understood (see for example Rhodes 1997). The cases presented by business historians of IBGR highlight, therefore, the complexity and contingency involved in assessing and managing political risk and that this is not simply a case of power relationships.

Managing political risk has also been a theme of another branch of the business historiography of IBGR, that is studies relating to MNEs and developing host economies. Business historians have, in particular, addressed the colonial and post-colonial dimension. Verma and Abdelrehim (2017) present a similar argument about the importance of context and contingency to those considered above, but in a post-colonial context: the relationships between Burmah Shell, the Burmah Oil Company and the Indian government fluctuated between cooperation and conflict in what was a complex relationship in which a legacy of imperial relationships continued to have influence. Sometimes this imperial legacy proved too much: Merrett (2007) has shown how the withdrawal of Australian MNEs from post-colonial Fiji and Papua New Guinea occurred, despite the host governments’ desire for them to stay, because the companies were unable to adjust to this new context. In other cases, empire and the imperial legacy does not seem to have been that influential in determining market access (Decker 2011; Lubinski 2015).

The influence of empire on IBGR stretches back much further in time too. In the age of high imperialism at the end of the nineteenth century there were many examples of European governments turning informal empire into formal empire to protect the rights and assets of multinationals. MNEs exploited this to embark on their own scramble for Africa (Jones 2000: 75–80). Moreover, the British government revisited an old model of business by issuing charters to certain companies to create state-sanctioned monopolies for certain parts of Africa. Like the East India Company (Carlos and Nicholas 1988; Bowen 2005) and other chartered companies before them there was a direct relationship between home governments and the operation of these state monopolies. But this influence could also be less direct too: by spreading legal systems from the metropole to the rest of empire, investor risks were reduced by replicating property and other rights and by encouraging companies to operate outside their home country. Thus, Mira Wilkins (1998: 435) posed the question as to whether there was a link, perhaps related to reduced information asymmetries and colonial administration, between free-standing companies and empire because these companies were at their zenith in the age of high imperialism.

This strand of imperial and colonial business history is part of a third important contribution to our understanding of the development of IBGR by moving research beyond the era of the ‘classic’ US manufacturing multinational of the post-Second World War era. From an early date, business historians have shown that the history of multinationals is a long one (Wilkins 1970, 1974). Such work has included many insights relating to IBGR and from which some important findings have emerged. First, it has been conventional to view the First World War as marking a watershed in this IBGR (Jones 2005: 203). Prior to that date, unless there were strategic issues, governments did not seem that concerned by foreign ownership issues and MNEs had a relatively free hand. With the war restrictions and expropriation of assets without compensation by host governments became increasingly common. For example, Coats lost their mill in Russia following the Bolshevik revolution (Kim 1995). Thereafter, throughout the interwar period governments took far more interest in foreign multinationals with various
restrictions and prohibitions imposed, notably in the United States (Wilkins 2004). This era is frequently associated with international cartelisation (Fear 2008; Kindleberger 1989: 233), and it became common to refer to the rise of MNEs after 1945 as, in part, the consequence of tighter regulation of cartels which made market access easier (Fitzgerald 2015: 258–331).

Yet, it is clear we should not take this too far (Dehne 2013). Indeed Tworek (2015) refers to the period from about 1850 to the Second World War as ‘the age of multinationals’. And if one looks beyond Europe it has been suggested that ‘the interwar years were not a period of deglobalization, but a period in which the relations between states and firms and between the West and the “rest” were reordered and renegotiated’ (Dejung and Petersson 2013: 16). The first half of the twentieth century has received considerable attention from business historians interested in IBGR:

What the period … between 1914 and 1929, and even more so from 1929 to 1948 … especially illustrated was the influence of home and host country governments on the activities of multinationals, and it revealed the power that nation states, even those in the developing economies of Latin America could impose on foreign-owned business. … [It also showed] how assertions of national sovereignty could strongly clash with the multinational’s assertion of private property rights and preference for open cross-border trade.

(Fitzgerald 2015: 257)

An example of how these policies developed even in countries traditionally with open trade policies and limited regulatory powers is provided by Scott and Rooth (1999). MNEs remained key actors at that time but they had to adjust their strategies in the light of the increased scrutiny that they faced. Frank (2009) has shown how Standard Oil tried to be flexible in its presentation of its Austrian subsidiary depending on the audience it was addressing. The same company (and its competitors) had mixed success with its legitimising strategies in South America (Bucheli 2010; Bucheli and Sommer 2014). Bucheli (2008) has also shown how in the case of the United Fruit Company in Central America that similar political interests (such as anti-unionism) were not sufficient to guarantee cooperation from a host government.

These cases illustrate not only the adjustment of market strategies by MNEs but also their non-market strategies. Corporate political activities, in the form of lobbying and relationship building with national governments were a core element of these MNEs’ strategies, even if they were not always successful. These political activities took many forms (Nye 1974) – from outright illegal activities like bribery and corruption (Dosal 1993; Bucheli & Minefee in this volume) to behind-the-scenes lobbying (Culpepper 2011) and on to open involvement in standard-setting (Moguen-Toursel 2002; Ramirez Perez 2007) and institution building (Ringe and Rollings 2000). Many of these activities occurred through the auspices of business interest associations but individual multinationals also acted directly. In addition, multinational firms were also at the heart of more general business lobbying (Rollings 2014; Phillips-Fein and Zelizer 2012; John and Phillips-Fein 2017; Waterhouse 2014). From this a more nuanced picture of political influence has emerged which has explored less direct and softer forms of influence but which, once more, illustrates the complexity and contingency of the relationship between MNEs and governments.

The final, if still emergent, contribution by business historians relates to the appropriate level of governance of MNEs. From the outset Raymond Vernon argued that conflict between MNEs and national governments was inevitable because of the ability of MNEs to exploit differences in national policies. Vernon became exercised over issues like transfer pricing and
taxation (Eden 2000): governance and regulation needed to become more uniform, be it through bilateral treaties, or institutions of regional or global regulation. As many have argued, the danger without such action is a continued ‘race to the bottom’ in the desire to attract investment. The next two sections explore these issues in more depth by examining two particular areas of study. The first, business and European integration, is the more established but still developing, while the second, multinationals and taxation, remains nascent, despite Vernon’s long-standing concerns.

**European integration**

European integration offers an interesting angle on IBGR because of its supranational dimension. What has been the effect of the existence of the European Union (EU) on the development of global business, as a market, as a regulator and as a new forum for MNE influence. Surprisingly few works in business history deal directly with the first issue. The most obvious exception to this is Jones and Miskell (2005) which examines Unilever’s restructuring strategy in light of European integration. Ramírez Pérez (2007) has also published work on the automobile industry.

In terms of regulation, there is one area where MNEs have been directly and powerfully affected by European Economic Community (EEC)/EU institutions: competition policy. One needs only to think of the recent cases against Microsoft and Google over abuse of dominant position and the hefty fines imposed on numerous MNEs for cartel misbehaviour to be aware of the EU’s profound influence here (Damro and Guay 2016; Cini and McGowan 2008). Historians have already developed an extensive historiography of the development of EEC competition policy and now business historians are also beginning to contribute to this field. A forthcoming special issue of *Business History* (edited by Rollings and Warlouzet) presents cases of business responses to various aspects of EEC competition policy in the computer industry, aluminum industry, the paper and pulp industry, shipbuilding, car distribution and boiler makers.

The other side of the coin is the impact of MNEs on European integration. European integration is traditionally seen as something to the advantage of MNEs as they can exploit economies of scale associated with the larger market: the European Roundtable of Industrialists, for example, has been credited by some with relaunching European integration in the early 1980s (Green Cowles 1995). Politically there have also been possibilities for standardisation and harmonisation of regulatory regimes. On the other hand, the existence of supranational political institutions is likely to reduce the bargaining power of MNEs.

MNEs were closely linked with the process of integration. This was particularly the case of US multinationals which followed the lead of Marshall Aid to Western Europe by embarking on a massive expansion of foreign direct investment (Wilkins 1974). Such was the influx of US MNEs by the 1970s that not only was it common to refer to the notion of the Americanisation of Europe (McCreary 1964), but also that ‘it has become a cliche that American companies have integrated the European economies’ (Behrman 1972: 50; Wilkins 1996; Tolliday 2003). However, historians of European integration rejected this argument, proposing that European integration was a process internal to Europe. Initially, this historiography was dominated by diplomatic historians but even when economic historians analyzed European integration such arguments still held no sway (Milward 1992, 2006; Guirao et al. 2012). This was because the focus of European integration historians was on the emergence and development of the political institutions of the EEC and this placed national governments and the nation-state at the heart of European integration (for overviews see Dinan 2014: 345–75; Loth 2008; Kaiser and Varsori 2010).
Recently, historians of European integration have begun to reassess this position and to redefine the meaning of European integration and, with that, the key actors involved. The outcome has been an appreciation of a much broader notion of European integration. In the early years of European integration there were multiple competing and overlapping notions of European integration, not just the EEC. Limiting attention to the EEC is overly deterministic (Rollings and Kipping 2008). Linked to this has been a move to bring society back in (Kaiser and Starie 2005; Kaiser et al. 2009; Kaiser and Meyer 2013). One element here is the role of business actors and business lobbying in influencing the course of European integration. An increasingly extensive historiography has appeared looking at this from a national level and from a European level. Some of this relates to business representative bodies and trade associations (Morival 2014, 2015; Rollings 2007; Geven 2014; Badel and Michel 2011) where MNE influence on EEC political institutions can be seen but is indirect, but also to the direct actions of MNEs (Moguen-Toursel 2002, 2007; Ramírez Pérez 2007, 2008, 2009a, 2009b). This was particularly the case in areas of what might be termed low politics.

A separate, but related, development in the historiography of European integration has flowed from Misa and Schot’s (2005) article on ‘the hidden integration’ of Europe. This was the starting point for a series of publications exploring the spread of technological innovations across Europe and the related network linkages. These provided the infrastructure for drawing Europe together, not necessarily on the basis of the six countries that went on to create the EEC but, nevertheless, providing a framework and linkages from which political integration might emerge (Kaiser and Schot 2014; Kohlrausch and Trischler 2014). Often these studies show how networks of experts, including businessmen, built links through the construction of transnational infrastructure projects (Van der Vleuten and Kaijser 2006; Lagendijk 2008; Badenoch and Fickers 2010; Högselius et al. 2015). Coming full circle in the historiography, Paju and Haigh (2016) draw inspiration from this approach to elaborate IBM’s approach to Western Europe after the Second World War and show how IBM embraced European integration ‘by engineering its own networks of interdependence among European nations’ (268). We are beginning to see more clearly the ways in which MNEs contributed towards European integration both directly and indirectly and were affected by it too.

Multinationals and taxation

The second area of focus, multinationals and taxation, is clearly a current issue of popular concern with the publicity given to the low levels of corporate taxation paid by many multinationals. Historical analysis of the development of this trend is nascent but has moved forward significantly in the last couple of years. This offers two important ways to improve our understanding of the growth of multinationals. First, there are the organisational implications for multinationals. According to the New York Times, Enron at the time of its collapse had 881 subsidiaries in tax havens, including 692 in the Cayman Islands and 119 in the Turks and Caicos Islands (quoted in Palan 2003: 193 fn7). Related to this, a raft of literature exists on the phenomenon of transfer pricing, whereby multinationals move goods and services between subsidiaries to maximise tax efficiency (avoid taxation) (for an overview see Eden 1998), but most is from a narrowly economic or tax perspective. Little work, to date, has considered the organisational implications of the growing complexity of these structures, or the consequences in terms of the internal organisational dynamics of its operations, with the focus remaining on the production and delivery of goods and services. Business historians need to explore the historical development of these changing organisational forms.

Second, and developing this last point, the long-term development of this phenomenon requires exploration. Most work in this field assumes that this is a post-1945 phenomenon
linked to the spread of US multinationals and the emergence of the Eurodollar markets. A literature is beginning to question this assumption but largely from the perspective of the establishment of tax havens (Palan et al. 2010; Zucman 2015; Sagar et al. 2013). Ogle (2017) and Palan (2003) have adopted a more historical approach. They both emphasise (a) the importance of a longer-term approach to the development of tax havens, often with their roots in empire and (b) that the tax havens often were of value to the very national governments who, as a result, lost tax revenue.

The period before the Second World War is also beginning to be studied on its own merits by a new generation of historians. Farquet (2013, 2016) has explored the interwar development of Switzerland as a tax haven. Similarly, Izawa in his PhD and various conference presentations has analysed the emergence of double taxation agreements after the First World War. Significantly, he also examines the role of multinational business in this process, including their development of subsidiaries to avoid double taxation (Izawa 2015) and their political activities (Izawa 2017). Here then is a nascent emergent field of study for business historians.3

Like the study of cartels, business records for the period before the Second World War can reveal the extent to which MNEs engaged with issues about taxation. For the period after 1945 business records may be less forthcoming given the lack of transparency around such issues, the sensitivity of companies to public disclosure of such activities and the complexity of the structures created. However, alternative sources do exist and are yet to be exploited systematically. First, there are the enormous collection of records of tobacco companies made available via the Truth Tobacco Industry Documents (previously known as the Legacy Tobacco Documents Library) (www.industrydocumentslibrary.ucsf.edu/tobacco/). The 15 million documents available online include some on tax avoidance and on the use of tax havens by tobacco companies. A second source is the collections of records released by the International Consortium of Investigative Journalists as the Panama Papers, the Paradise Papers and similar records, some of which date back to the 1970s (https://offshoreleaks.icij.org/). Finally, government records do sometimes deal with multinationals’ tax affairs as well as tax havens, in addition to the studies carried out by international bodies like the Organisation for Economic Co-operation and Development (OECD). For example, in the 1970s the UK government carried out examinations of transfer pricing, concluding that fears about the practice were a good deal exaggerated and that there was no systematic and widespread abuse by multinationals. Nevertheless, what stood out was the diversity of practice: multinational structures provided scope for tax avoidance and in 1976 the Inland Revenue was examining 180 companies on this issue (TNA 1976). A year earlier a Customs and Excise ‘Group of Four’, established to examine these issues, noted that the cases which had been most financially productive for the UK included Fison (fertilisers), Beecham (pharmaceuticals) and the US multinational Halliburton in addition to the more famous case of Hoffmann La Roche (TNA 1975).

Studying this topic may not be straightforward but is beginning to happen and seems timely given the significance attached to the topic.

Conclusions

If one accepts that markets and companies are embedded in a wider economic, social and political context then it is inevitable that governments will be a fundamental influence on business through their regulations, their laws, their taxes and their policies. As noted at the outset, territoriality distinguishes international business and MNEs from other forms of business. Without nation-states and national governments there would not be MNEs. European integration amends this picture but not in any fundamental way. In addition, while conflict between MNEs and governments may be widespread, there can also be cooperation. More importantly, this is
only one element of a more complex relationship where context and contingency matter. Equally, this is a two-way relationship where multinationals also influence national governments via a range of corporate political activities. Yet, once more, this has not been a straightforward process of political influence. Historical study of the making of global business again shows the importance of contingency and context. As a result, it is only with further cases that we will begin to be able to discern patterns among those contingencies in any systematic way. In other words, there is plenty of need (and scope) for more of the same – for more case studies exploring MNE–home, and MNE–host-country government relations – to provide a fuller and more detailed understanding of the complexities of these relationships.

Raymond Vernon’s solution to the potential conflicts between MNEs and national governments was to move towards forms of transnational governance. The history of European integration and studies around this issue of multinationals and taxation have shown that while this may offer some solutions these are, again, not straightforward. As illustrated in the case of tax havens, this is because it is false to depict the relationship between international business and governments as a zero-sum power game of political competitors. Rather, there is a symbiotic interdependent relationship but one which is fluid and dependent on context and circumstances.

Notes
1 According to Luyckx and Janssens (2016) this was the first article in *The Economist* to talk about MNEs directly.
2 For an overview see the introduction to the forthcoming *Business History* special issue.
3 There was a session on the topic at the 2018 World Economic History Congress in Boston.

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