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Why Does Business Globalize?

Chapter 2 surveyed recent trends in the globalization of business without really addressing two key questions: why do businesses expand their operations across national boundaries, and what are the implications of this expansion? This chapter examines these questions in light of a rather vast body of ideas on why FDI takes place. Perhaps the place to begin is to examine exactly what a "global" firm is, and specifically, is there any difference between a "global" firm and a "multinational" one? This question, although seemingly only taxonomical in nature, leads to more fundamental issues about the basic nature of the large, international firm.

What Is a Global Firm?

National Identity versus Stateless Entity

Throughout this book, the terms "global" and "multinational" firm have been used interchangeably. However, many writers have attempted to distinguish between the two. One leading authority on corporate management, Michael Porter (1990), argues that a multinational firm is one that holds and operates business activities in a number of nations but makes little or no effort to link these operations strategically, while a global firm pursues a unified strategy by which the various national operations are coordinated. When the latter strategy works well, the whole firm achieves synergy; the whole is greater than the sum of the parts.

Kenichi Ohmae, an often-quoted expert on corporate management, goes a step further. Ohmae (1990) sees global corporations as ones that have shed their home-nation identity and operate as essentially stateless entities on a global scale. In Ohmae's view, the nation-state is largely irrelevant to these firms. To the extent that it is relevant at all, the nation-state serves largely as an impediment to these firms' achieving maximum efficiency. That is, government regulatory powers reflect parochial interests and create barriers that hamper the global firm's ability to do what it does best: minimizing costs and maximizing consumer choice. The best of these firms, however, find ways to circumvent or neutralize these powers and achieve near-maximization of global benefits despite what are (in Ohmae's view) the misguided efforts of governments.

Another often-quoted authority, US Secretary of Labor Robert Reich (1990), agrees that corporations operate on a global basis but sees a continuing major role for national governments. He argues that governments should pursue policies to maximize economic benefits *within their borders*, regardless of whether the firms that create the benefits are headquartered domestically or abroad. Indeed, he argues that the United States may derive more benefit from a Japanese-based firm that creates significant numbers of high-paying American jobs than an American-based firm that locates its production offshore.

Porter's views (at least as expressed in his 1990 book, which are sometimes at variance with views in earlier works) do not wholly coincide with either Ohmae's or Reich's regarding national identity. To Porter, even the global firm retains a large measure of national identity. The home-market environment is a source of strength (or weakness) to the firm as a whole. Porter thus believes that one reason Japanese-based global firms have been so dynamic and successful is that Japan itself has been dynamic and successful, at least until the bursting of the "bubble" economy during the early 1990s, in which land prices collapsed following a sharp rise that had been fueled by speculation. Likewise, by Porter's reasoning, US-based firms lost ground internationally during the 1980s precisely because the US home market itself lost much of its vitality during the decade.

On this last point, a great debate rages on how much or even whether US firms actually lost ground. One major research project carried on over a number of years reveals that US-based multinational firms in the manufacturing sector have largely maintained their worldwide export shares even when US exports of manufactures were declining as a percentage of world totals (Lipsey and Kravis 1987; Kravis and Lipsey 1992). Hence, Porter's thesis is hotly disputed.

However, there is growing evidence of a US renaissance in manufacturing during the 1990s, with US-based firms in industries as diverse as automobiles and semiconductors showing much greater competitive strength relative to overseas rivals than was perceived as recently as

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1990. Furthermore, the US-based firms have clearly commanded the leading edge in newer, technologically dynamic industries such as microcomputers and software. One possible explanation is that Porter greatly underestimated the underlying vitality of the US economy. But another is that a global firm, as per Ohmae, might not be tied to the fortunes of any one particular country, even the country that the firm calls "home."

Nor is Porter's distinction between multinational and global corporations universally agreed. Numerous authors—including some mentioned below—have used "multinational" to describe much the same behavior that Porter terms "global." Nevertheless, the distinction Porter makes can be useful, even if it is not made quite in the way he intended it.

In fact, most international corporations have something of a dual personality. One facet of the character of such a corporation is "global" in Porter's sense—that is, the international corporation is a distinctive supranational entity that differs in important ways from purely national enterprises. Most international corporations do strive for something like a common strategy that encompasses all their operations. Indeed, few international corporations would characterize themselves as multinational by Porter's definition. And given that national subsidiaries must conform to this strategy to a greater or lesser extent, their responses to stimuli in their national markets might be markedly different from those of noninternational rivals.

But the second facet of the international corporation is a collection of subsidiaries, which typically cast themselves in the role of national firms operating in national markets. Thus, German subsidiaries of US-headquartered firms typically like to depict themselves (locally at least) as German companies. Likewise, US subsidiaries of Japanese firms go to great lengths to depict themselves as being American. To some extent, the depictions are correct. The subsidiaries must obey local laws, are subject to local regulatory authorities, and must often tailor their products and advertising to the local environment. Therefore, to a degree, the subsidiaries can be viewed simply as local firms whose owners happen to be foreigners.

Thus, every international firm to some degree fits Porter's description of a multinational firm. But most if not all to some degree fit the description of a global firm as well. Indeed, this dual identity poses dilemmas for public policy. The appropriate policy as regards a "global" firm might not be quite the same as that appropriate to a local operation that happens to be the property of foreign owners. Any discussion of relations between these firms and national governments must therefore address this duality.

Ohmae versus Porter in the Context of a Long-Standing Debate

The Ohmae-Porter debate is in fact but a recent (and somewhat popularized) continuation of a debate that has been ongoing since at least

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the late 1950s, when two seminal studies on the multinational spread of firms were released, one by John Dunning (1958) and the other by Stephen Hymer (1959). Dunning examined the operations of British affiliates of US-headquartered firms relative to their British-owned counterparts. His main conclusions were that the US-affiliated operations were more successful and that their success stemmed from their abilities to transfer technologies and other "intangible assets" (e.g., marketing and other managerial skills) from the United States to the United Kingdom and effectively to adapt these to the British environment. At least initially, the British rivals were typically unable to match the advantages accruing to the US-affiliated firms as a result of these transfers.[1]

Dunning also discovered that over time the British rivals were able to catch up to the US-affiliated firms. He concluded that the overall effect of the presence of the US-affiliated firms in the United Kingdom was to raise British productivity levels in all firms and not just the affiliates themselves—clearly a net blessing for the British economy. But he also noted the dual personality of these subsidiaries; their strengths came from strategic links with their American parents, and these links gave them a status that was not just that of another British firm.

Hymer's work was more theoretical than Dunning's. Whereas Dunning investigated empirically the differences between affiliates of foreign firms and their domestic competitors, Hymer attempted to explain why a firm would internationalize its operations. In particular, Hymer noted that, for a firm to operate internationally, it must have some special advantages over its noninternational rivals.[2] He identified these as "economies of scale" and "special management skills" such as marketing, especially the development of brand loyalty. These advantages would, according to Hymer, compensate for certain disadvantages faced by international firms—for example, the extra costs associated with managing operations over long distances and crossing national boundaries.

Hymer believed that these advantages constituted for society a two-edged sword. On the one side, firms holding these advantages were likely to be efficient and well-managed (and, indeed, were they to lose their efficiency-generating advantages and managerial prowess, they likely would be forced to retreat from their international operations). On the other side, these firms often possessed enormous market power, and from this could gain political power without accountability. Hymer himself tended to see the second (bad) side as dominating the first (good) side.

1. These findings suggested that "technological spillovers" are associated with FDI and that they bring tangible benefits to the host economy; see appendix A for a more extensive treatment of this issue.

2. Hymer used the term "international" firm but seemed to have in mind much the same concept as Porter's "global" firm.

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Whether one agrees or disagrees with this assessment, one cannot dispute that Hymer largely led the way in articulating the key issues of the debate on the multinational firm during the 1960s and 1970s. Indeed, his work and that of academics who followed his lead account for much of the outpouring of negative writings about multinational firms that characterized the 1970s. (See, e.g., Vaitsos 1974; Wionczek 1977, along with references therein. For surveys of this literature, see Stewart 1981; Chudnovsky 1993. For a popularized version of these arguments, Barnet and Müller 1974). These authors saw the global corporation essentially as a predatory monopolist that overcharged for the product it sold in local markets while suppressing any locally owned competitors by restricting the flow of technology to indigenous firms.

This view was probably not unwarranted in many Latin American countries, where policy for many years was to erect enormous barriers to trade in order to protect the local market from external competition but then to invite selected multinational firms to establish local production within the protected enclave of the domestic market. Often the scale of local operations was less than minimally efficient, and multinationals thus would bargain to obtain what were essentially state-sanctioned monopolies (typically shared with local interests) to compensate them for inefficient and hence uncompetitive operations.

This state of affairs was the result of policies deliberately pursued by certain governments and not, as the critics of the global corporation would have it, due to intrinsic and unavoidable tendencies of these firms themselves. Today, many Latin American nations—Chile, Argentina, Colombia, and Mexico, to name several—recognize this and consequently have greatly liberalized their policies so as to reduce barriers to inward direct investment. The case of Mexico is dealt with in chapter 5 under the discussion of the North American Free Trade Agreement (NAFTA).

In addition to developing nations, some industrialized nations have from time to time adopted policies that have been largely antagonistic toward multinational firms. For example, the governments of Canada during the Trudeau years and France during the de Gaulle and Pompidou years were generally perceived as hostile toward multinational firms, and both nations closely screened inward foreign direct investment (FDI) during those years. Both have since liberalized these policies.

Hostility toward global firms and FDI in general has not been limited to constituencies in host countries. In the United States during the 1970s, for example, which was at the time largely a home country to these firms, organized labor strongly opposed outward FDI by US firms (and to a large extent still does). The position of the US labor movement has been that outward FDI is largely a substitute for exports and that the overseas activities of US firms thus contribute to a loss of jobs within the domestic United States. A sophisticated variant on this claim is that outward FDI may not cause a net loss of jobs economywide but may

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redistribute the demand for labor from higher skill to lower skill categories (to stylize, high-paying, manufacturing jobs with high marginal productivities shrink as a consequence of outward FDI, while low-paying jobs in the service sector expand).

As noted in chapter 2, whether or not FDI is a substitute for exports, the premise behind the labor unions' opposition to FDI is at root an unresolved issue. Much evidence in fact suggests that in net they are complements. But a thorough resolution of the question depends upon the so-called counterfactual—that is, if FDI in a specific instance did not take place, would the demand for the relevant products or services have been met via exporting from the home market or from a "third" source?

Global firms often claim that FDI is needed in order to defend markets from alternative suppliers. Thus, while home-nation exports might initially meet demand for a particular product or service, over time and with the growth of demand, other suppliers enter so that the initial supplier is at a competitive disadvantage without local production. There is without doubt at least some complementarity between FDI and trade in at least some sectors—the ones where products are transshipped across national boundaries as they pass down vertical chains of production. Some analysts (e.g., Porter 1990; Encarnation 1992) suggest that the complementarities go much further than this and, indeed, that in some sectors FDI might actually be a prerequisite for international trade.

Analysts took exception to the criticism of FDI that followed from Hymer's analysis on other grounds as well. For example, Raymond Vernon emphasized the importance of technology development as a determinant both of international trade and investment (1966) and the role of factors specific to firms' home markets as a determinant of how this technology gets created and diffused (1974). Vernon in particular attempted to explain why US-based firms undertook the preponderance of FDI in the 1960s and why these firms concentrated their new technology development activities (i.e., research and development) in the US market. His hypothesis was that high per capita incomes in the United States generated a demand for labor-saving capital and consumer goods that embodied leading-edge technologies. Demand for such goods lagged in other countries but tended to become significant over time as per capita income in these nations grew. The special advantage of US firms in non-US markets then was the relatively early experience in developing and marketing these goods for the US home market. Local rivals in these markets simply did not have the capabilities to produce such products, although as demand in the local market rose, these rivals tended to develop or acquire such capabilities. Vernon's hypotheses were consistent with the observed fact that nations that are home to significant outward direct investment tend to have high per capita income. The predominance of the United States as home to such investment has, as documented in chapter 2, declined significantly in recent years, but those

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countries that have come to figure importantly as home nations are mostly ones with per capita incomes equaling or surpassing that of the United States.

Vernon's work was complemented by the theoretical work of Magee (1977a and 1977b) and the empirical work of Mansfield, Romeo, and Wagner (1979). Magee argued that the international operations of multinational firms would increase the appropriable returns to the investment in the creation of technologies and hence would induce these firms to invest more in technological innovation than would otherwise be the case. Mansfield, Romeo, and Wagner provided limited evidence in support of Magee by showing that US multinational networks did in fact increase the returns to new technologies significantly.

Two former students of John Dunning, Peter Buckley and Mark Casson (1976), noted that international exploitation of scale economies, brand loyalty, or proprietary technology requires a firm to actually own and manage international operations. Scale economies can be achieved in operations located solely in home markets with part of the output exported, while brand loyalty or proprietary technology can be exploited via licensing agreements with firms based in nations outside the home market. Thus, Buckley and Casson argued that while Hymer and Vernon's explanations as to why firms become international might embody certain necessary conditions, these explanations were not sufficient to explain why firms chose FDI over other means of servicing foreign markets.

Thus, to explain the existence of international operations, Buckley and Casson turned to the organizational theory of the firm as originally developed by Ronald Coase (1937) and expanded upon by Oliver Williamson (1975). The core of this theory holds that firms expand their organizations in order to capture internal economies. These economies are achieved mostly because transactions costs are reduced. For example, a firm typically finds it economical to hire workers on a long-term basis rather than to contract for workers' services on a short-term, arm's-length basis. This is because short-term services entail significant and recurring transactions costs (including training costs) that could be avoided (or incurred less frequently) if the workers were granted some degree of job security in exchange for loss of some personal flexibility. Williamson predicted that a firm will expand until the marginal cost of controlling a larger organization equals the marginal transactional cost of contracting with an outside agent to perform the same function as was internalized within the firm.

Buckley and Casson suggested that there are economies to be had via internalization of production and marketing across national boundaries (that is, keeping it all within one organizational roof, even if this roof extends across continents and oceans) versus arm's-length transactions such as exporting and licensing. John Cantwell, a younger colleague of

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Buckley and Casson, combined internalization theory with the observation that there is much rivalry among global firms and concluded that this would lead to more rapid development and diffusion of desirable new technologies than would occur in a world where there were no economies of internalization (Cantwell 1989).

All of these "post-Hymer" authors have done much to spark a reevaluation of the critical appraisal of the global corporation that characterized much of the 1970s policy debate. In particular, Buckley and Casson triggered a cascade of studies applying the organizational theory of the firm (a theory that itself has seen considerable refinement in recent years) to the multinational firm. Most of this work has suggested that the spread of global corporations is very positive in terms of their effect on economic efficiency and growth, thus reinforcing the work of Dunning. For a survey, see Cantwell (1991).

Cantwell's variants reinforce the contention that the global firm is an efficient organization with respect to creation and diffusion of technology, a contention buttressed by the earlier work of Vernon, Magee, Mansfield, and others. Cantwell's work in particular would suggest that local government policies to foster technological development that restrict the ability of multinationals to operate locally are likely to be futile or counterproductive.

Dennis Encarnation (1992) casts further doubt on the contention, long held by US labor unions, that US-based global corporations' overseas activities displace domestic exports and thereby destroy US jobs. He argues that direct investment is a prerequisite for exports, especially for technologically sophisticated products or services, because only through direct investment can a corporation selling such products or services create and maintain links with the relevant customers. Encarnation notes in particular that US firms' direct investment in Japan is low and that US exports' market penetration in Japanese markets for most technically advanced goods and services is also low. He builds a convincing case that the low direct investment causes the low export penetration rather than the other way around.

On the whole, the legacy of the works of Dunning, Hymer, Vernon, Buckley and Casson, and a host of other is much more supportive of Porter's views of the global corporation than of Ohmae's. That is, the global firm is rooted in its home nation's culture and derives many of its strengths (and possibly also its weaknesses) from it. Ohmae's view might be seen as forward-looking: large global corporations may indeed be shedding this national identity and becoming stateless entities. For the moment, however, the following observation still seems to hold:

> In our still imperfectly integrated world, firms by and large continue to have different centers of gravity that give them a more or less definable national identity. To call General Motors an American company, and Honda a Japanese one, does some violence to the fact that each is a multinational concern pro-

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ducing in several countries, yet Honda is clearly more Japanese, in terms of the weight of its interests and economic stake, and General Motors more American. (Graham and Krugman 1995, 8)

Impacts of National Policy on Globalization

Whereas the literature just discussed has focused on the characteristics of the global corporation itself that might aid understanding of what gives impetus to globalization, other analysts emphasize the relationship between firms and governments. For instance, nations impose tariff and nontariff trade barriers that could preclude a firm from exporting from its home country and lead it to establish "second-best" international operations—that is, the manufacturing of import substitutes at higher social cost than that of the imports themselves. (If the import substitution operations were not "second-best," they presumably would be established anyway, in which case the trade barriers would be largely irrelevant.)

Other factors are unstable, unpredictable exchange rates and the development of regional blocs, which have led a growing number of firms to locate deliberately redundant production within each of the main financial and trading areas (dollar, Europe, and yen). But other, more subtle national actions can also alter locational decisions: the granting of investment incentives (including out-and-out subsidies, but also including indirect subsidies such as monopoly rights) and the imposition of performance requirements (e.g., local-content requirements or domestic manufacture as a condition of entry).

Such national policies may reduce world welfare (largely via the creation of inefficiencies via misallocation of resources) but will not necessarily reduce the welfare of the affected firm nor of every country. For example, a firm structures its worldwide operations in order to comply with performance requirements (rather than to achieve global cost minimization) and furthermore receives incentives to do so because the value of the incentives to the firm exceeds the value lost due to costs that are higher than they otherwise would be. Presumably in such a case the host government believes that its country achieves some net advantage as well.

Overall, however, there is a net welfare loss. In effect, the costs of the incentives and performance requirements are scattered—if the nation knows what it is doing, the rest of the world bears them—while benefits accrue to the firm and the nation alike. However, even the country that extends incentives may lose if many other countries emulate its offer; in that case, the countries collectively transfer added benefits to the firms. And the insistence on performance requirements may deter enough investment altogether to offset any gains achieved by successful levying of such requirements on firms that accept them.

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Two main points emerge. First, national governments affect the operations of global firms. This holds true whether one accepts Porter's or Ohmae's perspective. However, Ohmae's assertion that nation-states are becoming irrelevant is no more accurate today than were similar views expressed by Kindleberger and Vernon almost three decades ago.

Second, certain of these national regulatory actions (as well as those by subnational governmental entities, such as US state governments) may dovetail with individual firms' objectives. Companies may gain from some governmental intervention (e.g., tax incentives) and at the same time hedge against those that threaten them (e.g., currency changes and trade barriers). But the effects of all these interventions may still be suboptimal in global (and usually national) welfare terms, raising the issue of whether new devices are needed to check them.

Relations between global corporations and governments have been the subject of numerous studies for more than 20 years (e.g., Servan-Schreiber 1967; Kindleberger 1969; Vernon 1971; Barnet and Müller 1974; Bergsten 1974; Bergsten, Horst, and Moran 1978; Gilpin 1979; Tolchin and Tolchin 1988; Glickman and Woodward 1989; Reich 1990; Dunning 1991; Graham and Krugman 1995). A theme that runs through many of these works is that global firms impinge on the prerogatives of governments or, perhaps more accurately, that the very existence of global firms weaken certain aspects of government policy or even make them irrelevant. Most of these works defend the rights of governments to enact policies to promote national interests over those of global firms, and some authors (e.g., Barnet and Müller 1974; Tolchin and Tolchin 1988) cast these firms as a menace to society in the face of which governments are largely impotent. But most studies note the potential benefits deriving from global firms and note that national policies can interfere with, and even negate, this potential.

Four possibilities have been raised for conceptualizing the relationship between global corporations and national governments under current institutional arrangements. First, global firms may dominate both home and host governments for the better, given the welfare benefits the firms generate (Vernon 1971). Second, global firms may dominate governments with adverse effects on both home and host countries, but particularly the latter (Barnet and Müller 1974). Third, the firms may be tools of their home governments' traditionally imperialistic or more modern mercantilist policies (Gilpin 1975). Fourth, the firms may ally with governments of host countries to maximize the gains for both without much regard for the impact on their home countries (Bergsten, Horst, and Moran 1978). Much of today's debate revolves around the question of which of these views is more correct or, more precisely, which of these outcomes prevail under what circumstances in particular industries in particular countries.

What are the conflicts between global firms and national governments

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and why do they occur? It helps to first ask what the legitimate functions of national governments are as regards their role in the world political and economic system.

National Defense

One such function, of course, is to provide for national defense. National defense is a highly legitimate objective of any national government but one that is easily perverted. With respect to global corporations, the issue can be presented starkly. To what extent should a local affiliate of such a corporation that is owned by foreigners be treated as a national entity of the country in which it operates, and to what extent should it be treated as an enemy agent? (In a sense, this is simply a recasting of Porter's distinction between a "global" and a "multinational" firm.)

From a government's point of view, it would be foolhardy with respect to matters of national defense to treat the local subsidiary exactly as though it were just another national entity. After all, only one facet of its dual character is statelessness; the local subsidiary must to some extent respond to headquarters management and strategy. But this does not make the firm an enemy agent; if it were, it likely would be expropriated or dissolved. The placement of local subsidiaries of global corporations along the spectrum between local-national and enemy agent is a real dilemma. It is clear that national security considerations of governments can clash with the "global" character of the international corporation.

Labor

Another function of a national government is to protect the interests of local factors of production that are immobile (or largely immobile) internationally. Most important, governments take it upon themselves to protect the interests of local workers. There is much debate over the appropriate extent of this role.

In the United States, the accepted role of government is to enforce safety standards, to prohibit most child labor, to enforce the rights of workers to union representation, to require that a minimum wage be paid, and to set some limits on the numbers of hours that employers can require workers to be on the job. In most Western European nations, governments see their role as being much more extensive.

In both the United States and Europe, government regulations to protect the interests of workers pose constraints on all corporations. But global corporations are viewed almost universally with greater suspicion than are national firms because of their ability to move operations across

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jurisdictions. An abiding fear of host countries is that the multilateral firm, faced with a cutback in global demand for its products, will shed workers first.

Taxation

Governments must finance their operations, and to do so they must of course tax their constituents. Few would question that local subsidiaries of global corporations must meet their share of the tax burden and that it is fair that they be taxed at rates commensurate with those levied upon similar firms under local control. (We shall here bypass the issue of whether taxation of corporations makes sense; we simply assume that all governments will continue to do it.) But governments of both home and host countries fear that multinationals will evade paying their fair share by allocating their profits in ways that maximize them—often ignoring the fact that it is patently impossible for a company to do so vis-à-vis *all* jurisdictions in which it operates. Moreover, governments frequently attempt to tax local subsidiaries of global corporations at higher rates than local entities pay. Foreign shareholders do not vote in local elections, and no voter in the world is immune to the promise that his tax burden will be shifted to someone else.

Defense of National Currencies

National governments also defend national currencies. Hence they must concern themselves with exchange rates, whose determinants include the national current account and balance of trade positions. For this reason alone, Ohmae's injunction to ignore trade balances is obviously fatuous in a world of nation-states.

The overall objective of a government with respect to the trade balance should be to maximize its country's terms of trade subject to balance of trade constraints so as to maximize national income. Often, however, this goal is achieved through policies that are based more on mercantilist reasoning than sophisticated optimization rationale. Almost all countries thus pursue policies to encourage exports: for example, export performance requirements on local subsidiaries of global corporations. (These can also be imposed on grounds of creating jobs, especially by linking the performance requirement to an investment incentive. Local authorities may then see the goal as both protection of workers' interests and improvement in the balance of trade.) Virtually all governments support the R&D activities of their private sectors, but many have been unsure whether to permit foreign-based companies to participate in government-supported R&D consortia (such as Sematech in the United States and JESSI in Europe). Whatever the justification for the policies,

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they are invoked in an effort to harness the global corporation to the achievement of local objectives.

Implications of the Clash between Government and Global Business

Why is any of this of concern? There are at least three reasons, and they underlie the whole rationale for this book. First, as noted above, certain actions that governments take to pursue national goals can reduce global welfare. Even if these actions bring tangible benefits to the local economy, their imposition ultimately entails a net cost, which someone must bear. The cumulative effects of such actions can be that everyone loses; this can happen, for example, if one government takes actions designed to offset the actions of some other nation and this process repeats itself so that no nation receives any benefits but all pay the costs of other nations' actions. Game theory tells us that the only way to prevent the "everyone loses" outcome in such situations is for governments to cooperatively end the actions that are causing the outcome and that this cooperation must be implemented via rules that participants break only at their own peril (Fudenberg and Maskin 1986). (In the language of game theory, the rules must be "self-enforcing" or "subgame perfect.")

Second, nations have legitimate functions, and the exercise of some of these will necessarily constrain global corporations. The issue is how to differentiate between legitimate government functions that constrain the global corporation while maximizing global welfare and those that collectively do no good and are even likely to do harm.

Third, conflicts of two types—between governments, and between a government and a company—will inevitably arise from the interplay of differing national policies and different corporate strategies. As the sheer magnitude of such conflicts rises with the increasing globalization of industry and the growing anxiety of many governments over its impact on their own efficacy, new rules and modes of dispute settlement may be needed to order the process.

Under all three of these headings, there may be domains—including taxation, reporting standards, competition policy incentives, performance requirements, and other areas—where nations need to cooperate to provide constructive regulation of global corporations. For example, some governments may agree to avoid welfare-reducing intervention only if other governments agree to do so as well. Likewise, some governments may believe they are unable to effectively pursue legitimate national goals vis-à-vis multinationals unless other governments are doing so as well. Many governments may be unwilling to abandon, or even limit, their jurisdiction over multinationals unless the firms are subjected to

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acceptable rules through other means, such as an effective international agreement.

Thus, in the following chapter, the specifics of such an international agreement are laid out. Then chapter 5 recounts the progress of international forums (the WTO at global level, as well as regional entities such as the EU, NAFTA, and the Asia Pacific Economic Cooperation, or APEC, forum) in developing such an agreement—at least pieces of it. Considerable progress has in fact been made, much of it in just the past few years. But there is a long ways to go, so the final chapter outlines a course for future progress in achieving international agreement.

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