

Multinational Firms, Economic Development, and the Emergence of “Trade in Tasks”

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Monty Graham’s views on the contributions of foreign direct investment (FDI) to economic development reflect his world view, which was shaped by economic theory. They are nicely summarized in the concluding chapter of *Does Foreign Direct Investment Promote Development?* edited jointly with Moran and Blomström (Moran et al. 2005). Under reasonably competitive conditions, FDI (and more generally, multinational corporations) can change the development trajectory by bringing “cutting edge” technology and management expertise to the host country. A major factor here is the possibility of vertical and horizontal “spillovers” of technological and managerial knowledge to local firms. While he certainly was cognizant of both the possible negative effects of FDI and the fact that the benefits were dependent on conditions in the host country, Graham saw FDI as a positive force in economic development.

In *Fighting the Wrong Enemy*, for example, he notes that once one goes beyond the immediate financial benefit of FDI, one of its most important contributions is technology transfer. As the local subsidiaries of technologically sophisticated multinationals produce “...goods that embody the latest and best technologies, in a facility that uses state-of-the art production methods,” multinational corporations (MNCs) can supply higher quality goods and services for host country consumers, pay higher wages to their workers, and inspire domestic rivals to improve their own products and processes (Graham 2000, 5).

In this note I present a very speculative argument that asserts that many assumptions about the impact of FDI on development, and in particular spillovers, assume that political-economic structures are invariant and that if one allows structures to vary, outcomes need to be reassessed. More specifically, I will argue that the basic units of analysis in an international world order—national markets and multinational firms—may become increasingly less relevant with the evolution of a post-modern political-economic system. Again, my arguments are speculative and all I can do here is raise rather than answer some very difficult questions.

An international economy is rooted in geography, comprised of territorially defined national markets, borders that are discrete and significant, and transactions that take the form of cross-border flows of goods, technology, capital, services, and the like. While, to some extent the multinational firm compromises the idea of discrete cross-border flows—it is a transnational rather than an international actor—the concept of an MNC as a coherent entity contributing to the development of national markets still holds. In an international world order, territorial states are seen as “containers” of the polity, economy, and society. Furthermore, national markets are the constituent units of an international world economy, which is, in turn, an aggregate of its components.

Baldwin has conceptualized globalization in terms of two “great unbundlings:” first, the spatial separation of production from consumption; and second, geographic separation of manufacturing stages. He notes that the second “unpacked the factories and offices themselves” (Baldwin 2006, 7). I would expand Baldwin’s framework to four stages, each dependent on developments in the technology of transport and communication. The first entailed the spatial separation of production and consumption beyond the confines of the local market, which was a function of the development of railroads and perhaps the telegraph. The second, the international separation of production and consumption, which occurred—on any significant scale—relatively recently, is a result of developments such as container shipping and basic international communications. The third is the geographic unpacking of the manufacturing process—vertically integrated FDI.

The last unbundling is spatially different from the first three. It involves what has been called “trade in tasks,” the disaggregation of the value chain into a large number of relatively small “tasks” that can be separated in both space and time. It is a function of the digital revolution, which has fundamentally restructured the idea of social space and the meaning of geographic proximity. As Grossman and Rossi-Hansberg note, “...perhaps most fundamentally, the concept of trading in tasks inherently concerns the disintegration of the production process and the adding of value in disparate locations” (Grossman and Rossi-Hansberg 2006, 6).

Trade in tasks rather than goods entails trade in discrete steps in the value chain, which could include development or design of some aspect of the product, software development, production of components, package design, or logistics. To the extent the idea of trade in tasks is realized in practice, vertically integrated MNCs are replaced by global production networks derived from what Gereffi has called global commodity chains. Commodity networks link “households, enterprises and states to one another within the world-economy. These networks are situationally specific, socially constructed and locally integrated...”(Gereffi 1994).

In a global production network, the multinational firm at its core becomes a systems integrator. If the disaggregation of the value chains proceeds far enough, it is not firms that compete but specific capabilities within firms. Trade in tasks, the disaggregation of value chains, and global production networks evoke what Castells calls a transition from “spaces of places” to “spaces of flows: from cities, regions and countries to networks linking nodes through relations across space” (Castells 1996).

As Henderson et al note, while the sociopolitical contexts in which production networks and embedded are territorially specific, the networks themselves are not. “They cut through state boundaries in highly differentiated ways, influenced in part by regulatory and non-regulatory barriers and by local sociocultural conditions to create structures which are ‘discontinuously territorial.’” Furthermore, state-centric constructs “do not adequately express the way in which non place-specific processes penetrate and transform place-specific ones, and vice versa” (Henderson et al. 2002, 445, 446).

How might the growth of global production networks and trade in tasks affect the relationship between multinational firms and economic development? Let me suggest several, admittedly speculative, propositions.

- The relevance of MNCs as coherent bounded entities and of territorial defined national markets as the constituent units of the world economy may diminish. It is possible that global production networks may compete with national markets as the basic units of the global economy. That would entail a shift from territorial to network modes of organization of economic activity: to post-Fordism at the macro level.
- The shift in power from states to markets may be exacerbated (Strange 1996). Global production networks are relatively amorphous, dispersed geographically and temporally and thus more difficult for any given state or even states collectively to control. Furthermore, if trade in tasks becomes an important mode of organization of the international economy the dependence of states on global production networks will increase significantly. It will become increasingly difficult, if not impossible, to replicate the output of the network within the borders of even the most advanced economy.
- Openness to the world economy will become an absolute condition of economic development. Again, to the extent technological development is embedded in global production networks, domestic replication will become virtually impossible.
- The efficacy of spillovers as a transmission mechanism for managerial and technological knowledge will have to be reassessed. As value chains are disaggregated and a smaller number of narrower tasks

are located in an area, the potential developmental value of any given transfer of technology may be reduced, and the ease of protecting intellectual property may be increased.

- The development of global production networks and trade in tasks may make concepts such as dualistic development and core-periphery difference directly relevant once again. However, this time around the core may not be defined in terms of geographic areas or particular sectors or firms but in terms of skill-sets that are demanded by global production networks.

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