

## Multinational enterprises, international relations and international business: reconstituting intellectual boundaries for the new millennium

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*The rapidly changing nature of the international political economy along with its increasing complexity, poses challenges for both theoreticians as well as policymakers; the former in terms of developing innovative frameworks of analysis able to model and understand the constitutive nature and contours of its parameters; the latter in terms of developing suitable frameworks of analysis able to inform policy analysis and practical management strategies. This article explores these dilemmas from two disciplinary perspectives. First, from international relations (IR) theory, particularly how various theoretical approaches have failed to consider more fully the role of non-state actors like multinational enterprises (MNEs) despite the growth in their importance and the resources they control. Second, from the perspective of international business (IB) which, while focusing on MNEs, has done so in the absence of more contextual approaches that situate MNEs in power-political, regulatory, and inter-state environmental settings. By highlighting the weaknesses of both disciplinary approaches, the article then suggests that the construction of new interdisciplinary rubrics jointly created from IR and IB, offers a better means of appreciating the changing character of the global political economy and some of its most important actors and emerging processes.*

### Introduction

International relations (IR) and international business (IB) seem at first glance strange bedfellows. On conventional understanding, the former is preoccupied with the distribution of power, the causes of war and the conditions necessary for peace; the latter with the operation of commercial actors, the growth of multinational enterprises (MNEs) and their articulation in markets. One concerns itself with the venerable tradition of enlightenment philosophy and the means by which we organise ourselves into epistemic communities and the rules and norms that govern the behaviour of our external relations; the other with the means of accumulation, the spatial dimensions of production and the practicalities of profit, operational logistics and competition.

On this understanding, IR and IB are distinctive intellectual pursuits, their subject matters mostly dissimilar, and the objects of their enquiry (states versus MNEs) manifestly different. Little wonder, then, that students of international relations and international business have been disinclined to venture beyond well-defined disciplinary confines and self-referential literatures, convinced that the conundrums and mysteries endemic to their subject areas are best addressed by the corpus of knowledge internal to their disciplines.

This article argues that these intellectual constructs represent false dichotomies, and that the construction of boundaries separating the study of IR from IB is detrimental to the longer term evolution of ideas, the betterment of knowledge, and an understanding of the technical means by which states, markets and commercial actors reflexively interact. Indeed, the article takes the argument one step further and suggests that discrete disciplinary knowledge boxes emblematic of IR and IB are ultimately disingenuous to understanding the mutually constitutive nature of states, markets and commercial actors, and that to decontextualise these actors from the economic networks, political linkages, and the domestic and international social norms that infuse their socio-political environments, renders unintelligible meta-environmental knowledge and the prospects for holistic theory and explanation. Importantly, however, the article does not argue for the cannibalisation of one discipline/approach by another, or for the simple extension of themes and concerns developed in one discipline to be transposed into the other. Rather, it argues that as a consequence of the deepening complexity of the modern global political economy, the study of states and markets, the processes endemic to them and the actors who operate in them, requires a conjoining of international relations *with* international business in ways that comprise a fundamentally new and more inclusive paradigmatic approach.

### *Structure of the article*

The argument of the article is advanced in four sections. In the first section a brief empirical examination of the significance of MNEs and international exchanges is mounted; in part to demonstrate the centrality of such actors and processes to the functional operation of the international system, in part to emphasise in subsequent sections the consequences of ignoring such actors and processes.

The second section addresses the evolution of theoretical perspectives in IR; specifically, it demonstrates the theoretical marginalisation of non-state actors (like MNEs) and inter-state commercial processes and how blind spots have evolved in our conceptual frameworks and theoretical models.

In the third section, the article addresses the evolution of IB, concentrating on its own biases and blind spots where it has privileged the analysis of MNEs but often to the detriment of contextualising the environment in which they operate, the political-power dimensions of markets, and thus the constitutive nature of state-market relations.

Finally, the fourth section attempts to begin the process of conjoining IR and IB in terms of possible future research agendas and the challenges posed in doing this.

### **MNEs: conceptual maps and empirical significance**

#### *Conceptual maps*

MNEs constitute one of the foremost international entities of our time, and international trade and financial relations one of the citadels of the global political economy responsible for generating ever larger shares of global wealth, employment and production. As a source of economic power the importance of MNEs have grown precipitously over the last half century. Their economic preponderance affects not just the constitution and organisation of domestic economic systems, but has wrought fundamental change on the linkages between national economies. By creating complex commercial networks, geographically disparate production, assembly, and distribution systems, and by operating highly complex profit repatriation corridors and cross-border financial management systems, MNEs have deepened interdependence and the functional linkages that bind economies together. Indeed, in a very real sense it has been MNEs, their investment, location and production decisions, and their sales, distribution and marketing systems that have intersected international financial and trade markets and made real the much heralded process of globalisation.<sup>1</sup> Without MNEs the notion of international markets, international finance or global trade would be conceptually vacuous: bereft of the actors and agency necessary to comprise these entities. MNEs have thus been both instrumental and definitive to the character, constitution and operation of the global political economy, and central to any appreciation of the forces causing its change, the contours that shape its practices, and the mechanisms by which its constitutive realms (states and markets) reflexively interact.

#### *Empirical significance*

Evidence in support of these assertions is not hard to find. The importance of MNEs can be manifestly demonstrated through any assortment of data available from leading international institutions. Surveying just some of this reveals the extent of MNE contributions to global economic production and to the livelihoods of tens of millions of people. As of 2003, for example, the number of MNEs had grown to 65,000, operating some 850,000 foreign subsidiaries and employing approximately 80 million employees with global sales in excess of US\$11 trillion dollars—or as the UNCTAD *World Investment Report 2003* put it, ‘today, transnational production outweighs exports as the dominant mode of servicing foreign markets’.<sup>2</sup> Four years before, the UNCTAD *World Investment Report* (1999) recorded the number of MNEs at 56,000 operating some 470,000

foreign subsidiaries with over 73 million employees and global sales in excess of US\$9.5 trillion dollars, while in 1995 the UNCTAD *World Investment Report 1995* assessed the number of MNEs at 38,500 operating 250,000 foreign affiliates and generating US\$5.2 trillion in global revenues (see also Stopford 1998–99: 13–14; UNCTAD 2003, 1995). In less than a decade, MNEs thus appear to have more than doubled in number, more than tripled in terms of the number of foreign affiliates they operate, doubled the revenues they generate, and increased substantially the number of people they employ.

These trends, however, are not simply proportionate to growth in the global economy. The extensity and reach of MNEs relative to the global economy reveals absolute growth in the economic power and influence of MNE operations. The volume of global economic activity MNEs now generate, for example, is up from less than five percent of global GDP in 1970 to nearly ten percent in 2003—or one-fifth of total global private GDP. So too, in terms of global trade MNEs now account for one-third of global exports, while the largest 100 MNEs are responsible for fully 25 percent of all FDI—or allocating some US\$1.1 trillion of FDI in 1999 (Held, *et al.* 1999: 246–7; UNCTAD 2003). More pointedly, the importance of private enterprise to global economic activity has grown markedly in the twentieth century and much of this is dominated by the commercial interests of MNEs. By 1998, for example, of the largest 100 economic entities in the world 50 were MNEs—up from only 37 in 1996 (MNE Sales and Rankings 1999).

Not surprisingly, the annualised revenues generated by some MNEs have come to dwarf the GDP of many nation–states. The combined revenues of the largest ten MNEs in 2003, for example, exceeded the combined GDP of the world’s poorest 100 nation–states, while the annualised revenues of Wal-Mart, one of the largest MNEs currently in existence, are today, at US\$258.681 billion, bigger than the economy of Belgium (US\$245.3 billion), Saudi Arabia (US\$188.4 billion), Ireland (US\$121.4 billion), Singapore (US\$86.9 billion), as well as the GNP of 168 other nation–states (World Bank 2002). Ranked in terms of total trade sales, for example, Wal-Mart is China’s eighth largest trade partner and is currently responsible for fully ten percent of the United States trade deficit with China (quoted in Forsythe 2003).

Less dramatic, but equally illustrative of this sea-change in the locus of economic power contained in MNEs, is the value of their brands. The brand value of Coca-Cola at US\$70.45 billion in 2003, for example, exceeds the GDP of the United Arab Emirates (US\$53.97 billion) and Tunisia (US\$67.13 billion). Similarly the brand value of HSBC (Honk Kong and Shanghai Banking Corporation) valued at US\$75.65 billion in 2003 exceeds the GDP of Uzbekistan (US\$66.06 billion), Slovakia (US\$67.34 billion) and Burma (US\$73.69 billion) (*Business Week Online* 2003; Global GDP Rankings 2003).

We could continue, but suffice it to note that the sheer weight of economic resources controlled by MNEs and the volume of their investments make their investment decisions highly significant to the well-being of national economies

and to great swaths of the global workforce. Emblematic of this is the fact that nation–states actively compete to attract MNE investment through investment promotion boards, various policy instruments designed to defray establishment and operational costs, and through membership to international forums to guarantee and indemnify foreign investors against loss through expropriation or nefarious political activity. For all the bad press they might receive, and despite the reprehensible activities and human rights abuses associated with some MNE operations, the investment they bring, along with the various positive externalities associated with their presence, sustains a highly competitive environment actively seeking to attract MNE investment.

### **Ontological bias and epistemological myopia: a brief history of MNEs in IR theory**

Despite the magnitude of their influence and significance in the global economy, MNEs have received unusual treatment in both IR and IB; treatment that tends either to marginalise them from analytical purview or make them so omnipresent as to downplay the socio-political environments in which they operate and the complex network of transnational–domestic regulatory environments that both enable and restrain them. One of the foremost entities in the global political economy thus remains curiously neglected, often invisible, or sometimes rarified.

#### *Marginalisation, neglect and invisibility*

In IR the history of scholarship concerning MNEs reflects both epistemological myopia and ontological bias. IR scholarship begins with a basic ontological view that sets the nation–state at the epicentre of the analytical focal plane, where state behaviour is a product of, conditioned by, and reactive to the fact of anarchy in the international system. Anarchy, in other words, provides both the motivating rationale for state behaviour as well as the ontological essence that drives international politics—the search for security in a hostile, violence-prone, self-help international system (Bull and Holbraad 1978; Guzzini 1998; Morgenthau 1967; Carr 1940; Waltz 1959, 1990, 1979; Keohane 1986; Buzan, Jones and Little 1993). IR thus begins with the nation–state as an *a priori* assumption; the elemental actor of most repute if only because it acts as both the causal agent of war (through inter-state conflict) and the means of protection for epistemic communities against the aggressive behaviour of other nation–states. The state, as aptly described by Charles Tilly (1992), is thus little more than a ‘security racket’; evolved as a reactive means to combat the insecurity of an anarchic world but itself a means of wreaking violence on others in a system where the absence of governance and order presupposes the ability of the strong to do what they want and the weak to accept what they must (Hobson 2000).

While, of course, there are numerous traditions of realist scholarship that espouse variations on the crude caricature presented here, all generally reify

the state and the condition of anarchy as the essential ontological given of international political relations. By default, other actors are rendered ontologically inferior, relegated to second order variables and generally factored out of the analytical focal plane of realist scholarship. Neorealism, for example, tends to ignore entirely non-state actors such as MNEs (Waltz 1979; Keohane 1986). States and anarchy form a kind of generative structuralism; the ubiquitous phenomenon of the state-as-actor and its role as a universal means of politico-security organisation arises in response to the condition of anarchy, while anarchy structures the state in terms of its *modus operandi* the search for protection and security, causing it to act in ways that are both defensive and offensive. While cooperative inter-state relationships can be forged in the form of trade relationships, alliances, and regimes and rule-governed behaviour emerge, and while international institutions might evolve (IMF, World Bank, WTO) and various non-state actors populate the international political and economic landscape (MNEs, non-governmental organisations (NGOs), international NGOs (INGOs)), the structural imperatives of anarchy and the absence of authoritative international order overrides any elemental structural transformation arising as a result of these cooperative endeavours, non-state actors or processes. As far as neorealism and classical realism are concerned, these other actors are basically inconsequential to the structural configuration and articulation of international political relations, and, as such, second order variables whose concerns are best relegated to less important corners of the discipline.

Much the same might be said of other traditions of scholarship in IR. Liberal and neoliberal perspectives, for example, while adopting a much less stringent focal plane inclusive of more actors and processes than realists, nonetheless still tend to marginalise MNEs, seeing them as mediating agents brokering political and economic transactions and relationships between states but not, as such, constitutive entities of the international system. For neoliberal perspectives, while transnational processes and non-state actors are seen as part of the tapestry of actors/processes that populate the international system, their ontological ordering tends to be as dependent variables derivative of state practices and specific nationalistic capitalisms.<sup>3</sup> MNEs, in particular, represent collectivities of mostly national economic interests projected into international settings because of the rationality of cost efficiencies to be derived through international production, procurement and outsourcing practices. They are essentially sub-state actors who just happen to conduct much of their affairs at the international level. While for some liberal theorists this can have longer-term transformationalist implications and change the systemic properties of the Westphalian system—in part by re-ascribing the locus of power away from states and military power and toward a post-industrial/postmodern mode of production that elevates soft power to an instrumental position in international relations—for most liberal theorists such perspectives, non-state actors and issues merely complicate and help complete our understanding of state-centred international

political relations. Robert Keohane and Joseph Nye (1977), for example, in their seminal work *Power and Interdependence*, tend merely to add other actors to the realist melting pot, creating a 'new' framework of analysis able to explain states and hard (military) power but also the increasing role and influence of soft (economic) power emblematic of the post-war world.<sup>4</sup> The analytical focal plane of IR and its traditional preoccupation with states and anarchy is not replaced so much as complicated by the addition of other actors who are analysed in terms of how they mediate state power through transnational processes and international institutions, and how they create increased linkages between states and provide forums for more coextensive regulation/normalisation of inter-state activities. The exercise of hard power by states is thus rendered more difficult by these transnational processes and actors, and the admixture of interests they represent creates complex linkages that essentially constrains state behaviour in ways that tend towards rule-based governance systems.

This type of theoretical approach has a long tradition in IR scholarship. Much of it was exemplified in liberal neo-functional theory of the 1950s through 1970s; the forerunner to neoliberal institutionalist and regime theory so popular in the 1990s—and beyond. Neo-functional theory essentially reified transnational processes in terms of functional linkages between states. The functional requirements of industrialisation, urbanisation and modernisation, for example, along with the emergence of numerous technical functional linkages between states required to facilitate transnational flows associated with modern commerce (shipping, aviation, transborder movement of people, goods, money and services, etc.), coupled with the degree of international independence through inter-state reliance on energy inputs, raw materials, and technical knowledge, for neo-functional theorists created ever expanding webs of mutual co-dependencies. These, in turn, ensnared nation-states into apolitical acts of standardisation of inter-state processes to ensure transnational flows of functional inputs, capturing an ever-expanding number of issue areas and subjecting them to international agreements, rule-governed behaviour, and the emergence of international regimes/institutions charged with ensuring efficiency and coordinated governance. In all, the base functional requirements of modern economic processes were spilling over into the political relations between states and resulting in greater swaths of cooperation and the incremental surrender of sovereign control over technical and functional issue areas. In some instances this was leading to supranationalism as in the case of the European Union, where formal amalgamation was creating fundamentally new forms of international political governance, subverting the nation-state and the prevalence of anarchy.

While a fundamentally different focal lens to realist scholarship, and perhaps prescient of many of the developments in Europe over the last 40 years or so, still neo-functional integration theorists like Ernst Haas (1958a, 1958b, 1961), Karl Dahlberg (1970), Karl Deutsch (1957), Charles Pentland (1973), James Caporaso (1972) and Lindberg (Lindberg and Scheingold 1971) preferred to address process(es) rather than actors, inverting the ontological position of

the state to be now dependent on the technical-functional linkages/processes that comprised its soft-power. MNEs, while not invisible, are simply one such technical functional linkage, essentially understood as *apolitical*, *anationalistic* actors who operate as self-interested rational economic entities but whose actions give rise to technical linkages which then require coordination, governance, institutionalisation and standardisation.

Subsequent functionalist variants such as neoliberal institutionalist and regime theory conspired to make these observations about the functional linkages thrown up by complex interdependence and the technical aspects of their efficient coordination, the centrepiece of their research agenda. Regime theory, for example, set itself a frenetic agenda throughout the 1980s and 1990s, defining regime types, enunciating their extensity, and identifying the emergence of new regimes. Detailed empirical work was devoted to identifying the causal mechanisms of regime formation, their operation, and the delimiting effects they had on state sovereignty, or how they mediated between states modifying state behaviour and producing new triangulations between state interests, non-state actors, international institutions, and the structural-functional imperatives associated with international trade, commerce and technology (Young 1999, 1998; Rittberger ed. 1993; Cutler, Haufler and Porter eds 1999; Cutler 2003; Mosley 2003).<sup>5</sup>

While liberal approaches have thus championed less state-centric approaches to international relations they have tended to do so through an emphasis on process driven ontologies, with non-state actors of interest only insofar as they personify processes that contribute to complex interdependence and delimit state manoeuvrability through the extension of rule-governed regimes. The ontological centrality of the state-as-actor in liberal theory is thus belied by the importance such theorists place on the extension of formalised regimes as a means of rolling back anarchy and creating systemic transformation in the organisation of the international system. MNEs feature as one such non-state-actor, but the level of importance ascribed to them tends to be marginal compared to institutions concerned with international governance.

### *Reification and derision*

Other theorists have taken their lead from liberal-based theoretical flats in IR. Globalisation theorists, for example, extend the process-centred ontological framework of liberal perspectives, characterising globalisation as a force not just of economic processes but of transformatory dynamics occasioned by shifts in attitudinal, political and cultural sensibilities; in part driven by exposure to an array of global stimuli like multiculturalism, travel, international media and information sources, migration, fusion foods, and heightened international exchanges at all political, social and cultural levels. While for globalisation theorists great emphasis tends to be laid at the feet of global cultural shifts in terms of what Robert Holton (1998: 161–85) describes as either cultural

'homogenisation' or 'hybridisation', MNEs equally feature in this shifting global sensibility through their market extensity and ever-expanding role in global production processes that touch increasing numbers of lives (Woods ed. 2000; Schaeffer 1997; Spybey 1996; Scholte 2000). Indeed, globalisation theory breaks with traditional liberal approaches and tends to place great analytical weight on the role of MNEs as leading causal agents implicated in the process of furthering globalisation.<sup>6</sup> For globalisation theorists, MNEs tend to be viewed as lead agents of economic change, or as economic actors whose quest for cost efficiency through various outsourcing and assembly practices, the drive for economies of scale, and the search for expanding market share, colonise ever greater swaths of the global market place, acculturating local consumers to taste and consumption preferences of standardised goods and services—the ubiquitous 'McDonaldisation' or 'Wal-Martisation' of the food and retail industry, or the 'Toyotatisation' of the motor vehicle industry in terms of management practices associated with just-in-time and total quality assurance production techniques.

For globalisation theorists of this ilk, MNEs are variously associated with a new capitalist mode of production; what David Harvey (1989) refers to as a postmodern mode of production situated in post-industrial materialism bound to a consumptive logic located in the commercialisation of aesthetics, imagery, and stylised cultural consumptionism (the emergence of brand fetishism, for example—Nike, Levi, Adidas, Calvin Kline, Christian Dior; Ralph Lauren; United Colors of Benetton, Bulgari, etc.).<sup>7</sup> MNEs thus receive more tacit attention from globalisation theorists, but attention that tends to be discursive; some of it highly critical and much of it overtly political and adversarial. The more liberal of globalisation theorists, for example, again supplant MNEs as part of a series of transformatory processes that change incrementally the character of global political/economic organisation essentially modifying the Westphalian state system and replacing it with heightened forms of interdependence to produce nominally integrated regional and global economic and political units. A more radical and populist variant, however, tends to paint MNEs as agents of negative impost; destructive, exploitative, and antithetical to local (national) interests—in fact as highly destructive to local communities and an outright threat to the diversity of the global polity. This variant of theory reifies MNEs as transnational actors who are detached from national sectional interests, having left behind states to roam a borderless world in pursuit of profits funnelled to elites who themselves no longer display allegiances to any national capitalism.<sup>8</sup> More obviously, the interests of MNEs and those of nation—states or sub-national communities, are depicted as contrary. MNEs are studied for the ways in which they destroy, subvert or incapacitate local economies, local work practices, craft and culture, and the very social fabric otherwise responsible for community survival and longevity.<sup>9</sup>

This intellectual approach mimics popular present day concerns about the omnipresence of MNEs, particularly the apparent extra-territoriality of their operations which place them beyond national control and thus the disciplining

forces of democracy otherwise able to control and rein in the untrammelled power of profit-market maximising entities. The emergence of widely followed anti-globalisation movements, for example, as evidenced by violent protests in Seattle at the World Trade Organisation Ministerial Conference (29 November – 2 December 1999), the ‘J18’ protests on 18 June 1999 against the G8 Economic Summit in Cologne, Germany, as well as the ‘A16’ protests in Washington in 2000 against the International Monetary Fund and World Bank, the ‘S11’ protests in Melbourne against the World Economic Forum’s Asia Pacific Meeting, and the 10,000 strong protests at the World Economic Forum’s meeting in Seoul, South Korea in June 2004, exemplify the popular malcontent and fears harboured about globalisation and MNEs in particular. All these protests, for example, featured as part of their campaigns pre- and post attacks against MNEs otherwise seen as the prime beneficiaries and agents of globalisation (Canadian Security Intelligence Service 2000). In Seattle, for example, 20 MNEs were subjected to five hours of cyber-attacks by 10,000 hackers, as well as physical destruction of high-profile MNEs assets, a feature now common to such demonstrations.

On this understanding and its expression in radical theoretical variants, MNEs tend to be reified as omnipresent actors and agents of international relations, supplanting the realist dynamics of power-politics as the hub of global economic (and, by default, political) power. This continues a long tradition among heterodox theories of IR, treating MNEs as elemental entities of class-based sectional interests that manipulate nation–states and non-state actors in the international system. Paul Baran and Paul Sweezy (1967), for example, advanced a neo-Marxian approach to analyse the world system, seeing class and class control of instrumentalities like MNEs as basic to the distribution of global power and wealth (Baran 1957).<sup>10</sup> In doing so, Baran and Sweezy continued a structuralist tradition of theorising derived from intellectual luminaries like Raul Prebisch (1962, 1970), the influential Latin American economist, who demonstrated the underlying structural inequalities associated with the Ricardian international division of labour and the problem of comparative advantage in terms of industrialised and non-industrialised nations, where a declining commodity-terms-of-trade would systemically exploit underdeveloped economies (Sunkel 1960; Seers 1961). While not implicating MNEs in the condition of global inequality directly, the structuralist school laid the groundwork for subsequent neo-Marxist approaches to expropriate structuralist thinking and apply it to issues of imperialism, global inequality and the mechanisms of capital and wealth extraction.

Two of the most celebrated of these traditions, dependency and world systems theory, for example, elevated structuralist and class-based explanatory models to centre stage, and, by implication, set their sights on agents of wealth and capital extraction like MNEs. Andre Gunder Frank (1969, 1978, 1972), in particular, identified the core-periphery relationship established by capitalist relations of production and imperialist exploitation a direct result of wealth extraction

(‘surplus transfer’) most commonly carried out by MNE actors. MNEs were painted as agents of class interests or national capitalisms (most often British, French, or American), effectively ‘sucking out’ wealth and transferring it back to sectional interests in the ‘core’ capitalist countries in the process contributing to the ‘development of underdevelopment’ (Wallerstein 1974; Magdoff 1969, 1978; Chilcote 1984; Barnett and Muller 1974). Antipathy toward MNEs, or at least an autarkic development policy to stave off wealth extraction by MNEs and preserve it for local development, led to import-substitution industrialisation (ISI) development strategies, defining for a generation analytical approaches toward MNEs. More obviously, this inscribed a necessarily confrontationist relationship between the economic interests of developing states and MNE activities, circumscribing productive engagement for often destructive wealth-destroying relationships. The spate of government expropriations of MNE assets, the nefarious activities by host governments to ‘claw back’ surplus deemed to be appropriated by illegitimate means, and the activities of MNEs geared toward inculcating domestic favour through corrupt practices, had an enduring legacy not just on the practice of state and MNE engagement but also the theoretical lenses through which MNEs were viewed.

In both IR and political science generally, much attention has thus been devoted to understanding the parameters of often hostile MNE-state relationships, of regime characteristics which pose risk for MNE investors, and political risk management strategies to handle wayward nation–states and the activities of commercially hostile governments. Protecting MNE interests as they venture overseas and engage in foreign direct investment (FDI) has thus been another avenue of academic inquiry, placing front and centre MNEs and state interests but in the context of the ontological preeminence of the state as the dominant-power entity in state-MNE relationships (Krasner 1978; Akinsanya 1980; Comeaux and Kinsella 1996; Haendel 1979; Lax 1983; Moran ed. 1998, 2001; Shubik 1986; Jarvis, forthcoming). More specifically, of course, this has also spurred a series of studies attempting to understand the interaction between states and MNEs, the relative bargaining strength of each, and under the auspices of globalisation the perceived decline of the state and of state sovereignty in the face of the continuing growth of MNE enterprise (Jarvis 2003; Schwartz 2000; Lairson and Skidmore 1997; Weiss ed. 2003).

Despite such efforts, however, there persists an absence of mature theory, method and frameworks of analysis, leaving little scope for understanding the mechanisms of causality in respect of state policy options and MNE influence, or the relationship between states, regulatory regimes and MNEs. Too little theoretical work, for example, has been attempted that deals with international property rights, state-MNE relations and dispute settlement, or correlating regime type to MNE location analysis. Answering some of the most pressing questions in IR about the modern global political economy and some of the most powerful actors who inhabit it, thus proves surprisingly difficult in a world supposedly shaped so influentially by these same actors. Indeed, despite decades

of theoretical effort IR has yet to evolve theoretical fiats able to grapple with the constitutive parameters of non-state entities and the processes that arise in their wake; how they comprise, condition, and reflexively shape/transform the international system. Subsuming MNEs and international business into the ontological fabric of IR theory so that MNEs and their constitutive relationship to states and state institutions are not moved to the margins of theoretical foci, thus remains some considerable way off.

### **International business and international relations: where to next?**

If IR has tended to marginalise analyses of MNEs and their reflexive relationships with state and state based institutional actors, IB has suffered an equally limiting fate, focusing almost exclusively on MNEs as actors but often to the detriment of situating MNEs in the broader environmental contexts in which they operate. In part, the problem for IB reflects debates over the merit and organisation of the intellectual exercise itself; in part its penchant for ubiquity across numerous disciplines that has tended to dissipate the evolution of a well defined and collectively acknowledged intellectual core. This has given rise to what John Dunning (1993) identifies as three distinct intellectual phases that have marked the evolution of approaches to the study and analysis of international business. These might be characterised as:

- The Practical-Foundation Phase
- The Search for Theory Phase
- The Globalisation Phase

The first of these phases dates from around the early 1950s to 1960s and represents, as the name suggests, early attempts to understand not just the terrain of IB and its limits, but the organisational parameters of the discipline as a whole. It comprised a few senior scholars whose interests coalesced around international business, but whose intellectual training was defined by one of the traditional functional business areas (organisational studies, location theory, theory of the firm, industrial organisation, trade theory, political economy, etc.). It drew upon disparate intellectual sources and embodied scholars of multifarious backgrounds but united by a preoccupation with business conducted at the international level. It was, in every sense, a vexed period of self-examination about the elemental ingredients of a newly emerging discipline; its primary concerns, units of analysis and methods of appraisal. More obviously, it was also a debate about the need for, and viability of, a stand-alone discipline of IB; a debate that rages to this day.

The second phase, also as the name suggests, represents the quest for delineation and codification of the disciplinary parameters of IB; particularly the identification of analytical tools able to guide knowledge development about international business and MNEs. Importantly, for Dunning, this second phase occurs outside of established business disciplines and has a more transnational

and less American-centric focus; one geared toward analytical approaches that address 'the motivation for, and determinants of foreign direct investment and the multinational corporation' (1993: 7). In other words, rather than focus on the *internal* organisational and functional attributes of international business organisations (MNEs), the second phase more thoroughly explores the nature of foreign direct investment and of the emergence and increasing importance of international markets as driving agents of domestic business change.<sup>11</sup>

The third phase, beginning in the 1990s, while still evolving, is represented by the challenge of globalisation and the increasing internationalisation of markets, production processes, and the consequences for industrial organisation, location practices, marketing, business strategy and management systems. For Dunning, this third phase challenges the sanctity of traditional IB approaches which, he laments, 'were largely US dominated' and which 'took the study of domestic business and gave it an international dimension [but] with the least possible change' (1993: 9). Domestic and international business, it was assumed, were basically the same, with organisational, production, distribution and marketing systems following the same singular trajectories and motivated by the same universal goals. The peculiarities of culturally specific taste preferences or culture bound organisational systems, employment practices, management styles, communication norms, business networks, or exchange systems, for example, and the great variance in each of these between and within regions like Asia; South Asia; Western/Eastern Europe; North/Central/and South America; or the Pacific island states, was mostly swept aside, dismissed as unimportant or, at worst, simply not considered at all. As a consequence, IB was popularly assumed to be an *acultural* domain, and business organisation and strategy a function of scientific management practices that were universally organised around a theme of *acultural* rational-ego-actors bounded by profit maximising motivations. The growth of MNE enterprise and the spread of capitalist relations of production were thus viewed as a form of diffusionism; where American and Western European business units essentially colonised the world. Much like economic growth, capitalist relations of production and the operations of MNEs were essentially viewed as an outward core-periphery process, where the core attributes of each process or business unit essentially grew and spilled over into the international realm, replicating itself and its *modus operandi* in the absence of the contextual influences of local culture, domestic socio-political institutional norms and the spatial-geography of place and space. If difference or the influence of any of these contextual parameters were apparent in terms of 'selling to or producing in Belgium, Peru or Thailand compared with selling or producing in Kansas, Oregon and Louisiana', as Dunning notes, 'these were considered relatively minor'. Business and the 'achievement of business goals was perceived to be a *culture-free* phenomenon' (1993: 9).

Importantly, the third phase of IBs evolution challenges this *acultural* logic and the American-centredness of theoretical approaches and knowledge production, imploring practitioners to look further afield, beyond ethnocentric lenses, and

examine the culture-bound understandings of business, business practice and organisation; to question the culture-bound peculiarities of marketing, distribution systems and management styles, and thus the assumption of a base-core knowledge as somehow beyond culture. IB, for Dunning, is thus confronted with a revolution of sorts by the rise of globalisation and the changes this induces in market composition, the relationships between national markets and global/regional ones, and, as a consequence, the changing complexity of interdependent production, distribution and organisational networks that necessarily infuses multicultural diversity into market structure, changing the functional attributes of market operation and market participation. Although only alluded to by Dunning, it is the preponderant emergence of *difference* and *diversity*, especially in terms of the evolution of emerging markets, that is breeding new forms of consumerism and consumption habits, new business entities, business systems, and organisational strategies.<sup>12</sup>

Why is this important, indeed, is it important for IB or just another glib observation about the changing character of economic and business organisation occasioned by the deepening of globalisation? The argument of this article, and not surprisingly for Dunning also, is that it is profoundly important, principally in terms of its impact on three interrelated areas.

First, it is important because the elemental nature of markets and market composition is transposed by financial globalisation and liberalisation. Apart from the growth of the services economy, more obvious is the increasing extensity of marketisation, where the transportation of capital through instantaneous communications increases the speed with which capital is able to complete its circuit. Under industrial capitalism, for example, the speed of capital was constrained by the logistics of industrial production (the time it takes from project inception, capital raising, investment, product development, manufacture and production, distribution, sale and profit repatriation to shareholders); a process that could take several years. Under intensive globalisation, however, capital is able to complete its circuit at greatly reduced intervals, through investment and profit realisation in financial instruments as diverse as foreign exchange dealings, bond, equities, futures or derivatives trading, as well as through a countless number of financially engineered derivative products aimed at some form of intra- or inter-market arbitrage (i.e. purchasing a commodity or security in one market for immediate sale in an altered form in another or the same market; for example, reinsurance products to on-sell risk, repackaging variously rated debt instruments and on-trading, etc.).

The consequences of such financial developments have seen a wholesale movement of wealth generation away from industrial production toward financial and knowledge-based economic activity. While a tumultuous event in itself, more significant have been its effects on adequate prudential regulation and the reach of the state. Intensive globalisation has de-coupled capital and credit creation from its dominant location in the banking and industrial sector where it easily fell under stringent state regulation, allowing it instead to migrate to various

financial conglomerates willing to absorb the risk exposure to moral hazard and the limitations of the financial products through which debt or arbitrage instruments are extended. In doing so, the role of the state and of state-based regulatory agencies has been diminished, with the vast bulk of international transactions and the extension of debt instruments by financial conglomerates, falling beyond state-based prudential regulation. The result is a more volatile mixture of profit-seeking financial activity unfettered by the delimiting reach of prudential moderation and public opacity (Steinherr 2000: 178–94, 195–236).

Second, for state based regulators the changing nature of capital creation, of the means by which financial instruments of global extensity can be engineered, and of the ease of transporting capital through numerous vehicles/instruments, makes for exponentially expanding business and financial networks of ever-greater complexity. While much of this complexity is primarily expressed in terms of the growth in the sheer volume of international transactions and the changing distribution of power between national/international markets and nationally based prudential regulators, much is also expressed in terms of the degree to which these complex networks create interdependent risk nodes able to transmit volatility or financial crisis between national economies and markets. The potential, unfortunately realised on a limited basis in the Asian financial crisis of 1997 and soon after with financial crises in Russia, Argentina and Brazil, can expose not just business organisations but countries, investors, and entire economic systems to financial instability and systemic financial failure. The admixture of financial globalisation and liberalisation set amid the limited prudential reach of regulatory agencies, thus makes for a vexed period of compromised state authority vis-à-vis market extensity, cross-border capital movements, and the exportation of economic and financial stimuli, some with negative and potentially catastrophic imposts on domestic environments.

While many of these risks have been acknowledged in the globalisation literature, the policy remedies to compensate for such risk exposures have been largely absent. Indeed, in terms of the reciprocity of these risks for actors other than nation-states (MNEs, superannuation funds and institutional investors, etc.), the literature is sparse. Putting aside concerns about investor flight or fickle investor confidence in international financial markets, for example, little attention has been paid to the consequences of exposing interdependent economic systems, financial and business vehicles/instruments, to the extensity of discrete regulatory regimes and multiple regulatory agencies. The burgeoning number of regulatory agencies, for example, scattered through greater numbers of jurisdictions in non-contiguous ways, can multiply the regulatory risk exposure of international business enterprise, institutional investors, and thus the risk vulnerability of great portions of global wealth and national savings. Indeed, sporadic, ill-considered, poorly timed or incorrectly sequenced policy shifts by national governments or regulatory bodies can have knock-on effects, transmitting them across jurisdictions where unintended or deleterious consequences can be magnified, or where inappropriate market signals and the havoc of dysfunctional financial

intermediation can be exacerbated. Recent examples of poorly sequenced policy shifts (by market incentives) in the case of industrial policy in Southeast Asia, for example, has had far reaching implications for MNE location strategies, with knock-on consequences for domestic employment and taxation receipts as MNE's respond to opaque market incentives and frequent policy changes—many rationalising their regional presence (Felker 2003).

Third, and finally, the machinations occasioned by these functional and structural realignments, deepening financial interdependence, and the cacophony of third party non-state actors, harbours obvious implications for the functional relationship between states and markets; suggesting a more nuanced appreciation of their co-reflexive constitution, the reciprocity of mutual determination in terms of systemic change, power relationships, state-market opacity, regulatory reach, and the nature of functionality in the global political-economy. This deepening complexity obviates simplistic narratives about state-market determinations; i.e. the retreat of the state or the rise of rogue capitalism. Rather, it compels us to address more adroitly the intersection between institutions, states, markets, market participants, and ideational norms. Recent history, for example, is full of examples where state/institutional policy mingled with neoliberal ideational norms and mediated through international organisations (International Monetary Fund, World Bank, Asian Development Bank, Bank for International Settlements, the Organisation for Economic Cooperation and Development to name but a few), and various policy forums (World Economic Forum, G8, G22, ASEAN, APEC, LAFTA, NAFTA, OAS), can alter market-economy opacity, change investment regimes, and spurn new commercial instrumentalities or growth areas in international markets—some with devastating outcomes (Thailand, Russia, Argentina), others with enabling consequences. The point is not that these developments represent some ubiquitous convergence along a neoliberal model prone inevitably to structural instability, but rather, and more realistically, that different forms of state-market relationships will and are emerging (as they have historically), producing multifarious outcomes, redefining the spatial dimensions of economic interaction and modes of production, but in ways that are not historically contiguous and which pose fundamentally new forms of governance and state-market interaction—many simply beyond the purview of current theoretical modelling and understanding (Hall 2001; Dore, Lazonik and O'Sullivan 1999).

For IB, the third of its evolutionary phases is thus a confronting one, particularly in terms of revisiting issues of intellectual boundaries and core focuses. At no time in previous history have the relationships between the economy and polity been more intertwined, or the mediating connections that transmit political determinations of market opacity and boundaries been more vexed or intermediated by such a cacophony of stakeholders (NGOs, INGOs, MNEs, IOs supranational regional organisations like the EU, as well as states), or trade and financial flows more dissipated between developed and emerging economics, or economic dependencies on transnational factor inputs, raw materials, human

capital and technological know-how so deeply embedded. There is, obviously, a need to explore these relationships, to revisit the means and ways in which state and economy are co-determined, how state and MNE/business relations are mutually constituted, how regulatory orders and institutions promulgate power and erect governance and compliance regimes and thus the foundational rules and norms which govern market participation and commercial practices.

Understanding the environment in which international business operates and of the various structures and political machinations which change market parameters, the rules of competitive engagement, the compliance regimes that impose market order, and the prudential-regulatory regimes which ensure information dissemination/transparency (and or its distortion) and thus the degree of market functionality, lies at the hub of understanding the constitutive relationship between states and markets. Yet it is precisely these relationships and the transaction costs they pose to international business that are too little understood; indeed, which suffer from too few dedicated business courses to inculcate students with their importance, and which suffer from too little theoretical and analytical development in order to provide students and practitioners of IB and IR with the necessary conceptual apparatus to analyse and assess them.

### *Synthesis?*

Getting beyond this dilemma and situating the international business environment front and centre in IB education might be one such immediate path to helping bridge the gulf between narrow functional business knowledge and knowledge of the broader workings of the international business environment. Yet it would be naive to suppose IB could provide sufficient indigenous knowledge and frameworks of analysis to bridge this gulf entirely. This, perhaps, is where the synergies and complementarities between IB and IR can be profitably exploited, and where the future of international business and international politics education might rest. But where might this begin and how?

An obvious preliminary step involves recognition of the joint terrain shared by IR and IB; that there exist far more intellectual complementarities than has been acknowledged previously. In IR, for example, international political economy (IPE) fits comfortably with many of the research agendas and theoretical concerns of IB scholars, helping to advance our understanding of power-political bargaining relationships and of the role of state-based decision-making and its consequences for the development of international markets and cross-border exchanges. Equally, work in IB on MNE location strategy, MNE-state bargaining relationships and business interest group pressure, for example, speaks strongly to IPE scholars in IR, as does work on political risk analysis and the relationship between domestic political institutions and market operation (Henisz 2000a, 2000b; Henisz and Zelner 2002). In the same vein, the core functional knowledge taught in IB about MNE investment decision-making and the operational logistics

of MNE activities, are obvious IB research agendas that would enrich theoretical understanding among IR scholars working in IPE.

Despite the existence of such rich literatures, inter-disciplinary reading habits are not well developed, let alone joint research agendas. In part the problem stems from the nature of professional development where scholars of both IR and IB are actively encouraged to read and cite discipline-based experts as well as to publish in discrete disciplinary based journals. In part, however, the problem is also a function of the theoretical–historical prejudices of how the subject matter has been organised. IPE in IR, for example, continues to be treated as a ‘sub-field’ and marginal to the ‘main game’ and the dominant research agendas are in security studies, military and geopolitical strategy, and foreign policy analysis. While not discounting the importance of these fields, the manner in which we train postgraduate students to ‘specialise’ in one of them has not always served us well. Postgraduate training, for example, tends to stream students into niche fields but often without providing the kind of linking courses that make transparent the connections between the various sub-fields and their mutual co-dependence. Training ‘specialists’ is of course a necessary function, but how specialist should such training be? Too great an emphasis on specialist training runs the risk of constructing theoretical and empirical research agendas that ignore the broader, and perhaps more fundamental questions about the constitutive nature of political and economic systems, the forces driving change, and thus how best to manage systemic transformation in the international political-economy.

Much the same criticism can, of course, be made of the style of IB postgraduate education and the equally delimiting implications for IB theoretical and empirical research. The point here is not to defend one against the other, but to suggest that specialist training in both IR and IB needs to be balanced against broader training in related fields; exposing students to issues of political economy, global financial composition, MNE actors, and their role in the distribution and articulation of power between states and of state-market relations in interdependent global economic systems. Equally, IB postgraduate training needs to include exposure to power-political relationships between nation–states and of the role of geo-strategic and military relationships in shaping state-market relations.

In practice, the implications for IR and IB research and postgraduate training are confronting. For IB it requires a more nuanced appreciation of intellectual approaches that move beyond technical knowledge and core functional competencies to include exploratory knowledge that grapples with the structures that configure markets and international business and thus precipitate commercial change. Specifically, it involves recognition of the fact that market extensity and opacity does not exist in a vacuum, and that the role of power, values, and political processes are essential ingredients that require empirical and theoretical acknowledgment and investigation.

For IR, it requires moving beyond ontologically privileging the nation–state to the exclusion, or at best secondary marginalisation, of the study of MNEs,

international business and international political economy, and situating these more fully at the centre of theoretical discourse and empirical analyses. This does not mean privileging such approaches but it does mean better integrating the field in ways that exposes students to the relationships between their sub-fields and specialisms. It might, for example, mean exposing IR students to more economics and to core functional knowledge areas taught in IB and encouraging them to situate their research agendas between these two fields—something that is all too often discouraged or simply not available to students under present curricular structures.

Undoubtedly, such recommendations constitute a tall order and their realisation in practical terms is many years off before genuine intellectual outcomes might be observed. Intellectual boundaries attract strong loyalties and change of any kind can threaten vested professional interests. Yet there is no sense in which advancing practical and theoretical knowledge of international business, multinational enterprise, the workings of the international political economy, or the constitutive processes that modulate international politics and the wealth of states, can be realised without such intellectual modifications and the dissolution of existing intellectual boundaries.

## Notes

1. Contrary views are forcefully expressed by Hirst and Thompson (1996: 76–98). See also the anti-globalisation thesis postulated by Weiss (1988) who disparages notions of the retreating state. Contrary views are expressed by Sassen (1998).
2. Most recent figures are from UNCTAD 2003 and Held, *et al.* (1999: 236).
3. There are exceptions to this, of course. The path-breaking studies championed by Susan Strange tended to reorient the ontological reification of the state so typical of most IR theory, and began to privilege equally state and non-state actors like MNEs. See Stopford and Strange (1991). See also Strange (2000).
4. See also Keohane and Nye (1972). Keohane continues this tradition of scholarship in Keohane (1984). Similar perspectives can be found in Maghroori and Ramberg (1982). See also Rosenau and Czempel eds (1992); Rosenau and Singh eds (2002).
5. For a critical perspective on regime theory see Crawford (1996).
6. These arguments are, of course, predicated on the technological innovations in shipping (container shipping) and associated cost reductions, as well as revolutions in communications and the associated enhancement of logistic supply chain management.
7. Similar perspectives in terms of the geography of postmodernism can be found in Soja (1989). See also Jameson (1991).
8. See, for example, Greider (1997). Similar perspectives can also be found in Klein (2001); Becker *et al.*, (1987). On the transnational Diaspora of global wealth and wealth management see Palan (2003).
9. The extensity of MNE Transnationality is assertively questioned by various authors. See, for example, Hirst and Thompson (1996). See also Doremus, Keller, Pauly and Reich (1998).
10. Baran and other neo-Marxian theorists continued a long established class-based analysis of international relations prevalent since the writings of Vladimir Ilich Lenin. See Lenin (1969).
11. Dunning further notes that the second phase was also marked by vexed debate about the elemental value of international business as a stand-alone discipline compared to international

business simply being viewed as an extension of, or series of specialised studies within, the broader discipline of business.

12. Dunning's point about the American-centric nature of IB knowledge production, and thus the intellectual images it produces, has its corollary in IR where the same American-centredness has for a long time produced a monocultural view of international politics because of the dominance of US perspectives and US academics in the field. This tends to create a less than international discipline despite its subject matter which, after all, professes to concern itself with things international. See, for example, Crawford and Jarvis eds (2001).

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