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This working paper explores long-run patterns in the strategies of international business in developing countries. There was a massive wave of Western multinational investment in the developing world during the first wave of globalization before the 1920s. The subsequent decades of de-globalization saw the proportion of world FDI in developing countries sharply decline, and it has remained far below pre-1914 levels during the second global economy beginning in the 1980s. The working paper shows how management strategies were shaped by context in each historical period which provided a mixture of opportunity and risk. In the first wave of globalization, MNEs sought access to resources, and governments frequently gave them exclusive contracts and favorable deals in order to build businesses. The major management challenge was to overcome logistical challenges to enable minerals and other commodities to be exported into global value chains. During the Great Reversal, the main challenges faced by MNEs were political. Firms needed to build political contacts with assertive host governments, and attempt to strengthen their local identities, especially by localizing their managements. There was little need to adjust products to highly protected markets, or respond to limited local competition. In the contemporary global economy, political risks partially declined with the spread of liberalization and the abandonment of anti-foreign restrictions. However corporate strategies needed to carefully manage relations with governments. Emerging markets, or at least the larger and more fast-growing ones in Asia and Latin America, were increasingly seen as indispensable by MNEs in every industry. They were both a place to assemble manufactured goods and locate activities in the lower end of global value chains, and a fast-growing market. There was a growing need to incorporate local relevance into global products, and to respond to local competitors.

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Introduction

This working paper provides a long-run perspective on international business in emerging markets. It focuses on the role of Western MNEs, and examines their strategies and the management challenges they faced. It should be stressed from the outset that this working paper has to operate at a high level of abstraction. Both MNEs and emerging markets are heterogeneous, and both have changed enormously over time. Countries have also shifted between the "emerging" and "developed" categories over time. Japan is the most obvious example, given its progression from developing status in the nineteenth century to the world's third largest economy in the contemporary global economy. This working paper suggests broad long-run patterns, but acknowledges the risks of generalizing over time and between geographies.

Evolution of International Business in Emerging Markets

Globalization has a long history. The dramatic geographical expansion of the ancient Roman Empire, or of Islam centuries later, or the Mongol Empire of the thirteenth century, were manifestations of globalization trends. The Voyages of Discovery by Columbus and de Gama from Europe over five hundred years ago saw transfers of technology – and disease – never seen before.

Yet a combination of high transport costs, wars and government-imposed barriers handicapped sustained and deep globalization until the nineteenth century. During that century radical improvements in transport and communications and the withdrawal of the state from economies, including trade regulation, enabled unprecedented flows of people, capital and trade, and unprecedented integration of markets. (O'Rourke and Williamson, 1999) Business enterprises were key to this first wave of globalization. Firms put in place a global banking and trading infrastructure. A global transportation and communications network was built by cable, and telegraph and shipping companies. Manufacturers transferred the production of goods ranging from sewing machines to automobiles and aspirins internationally. While World War 1 (1914-1918) exercised a major political and economic shock, globalization persisted through the 1920s, only to undergo a major meltdown in the wake of the Great Depression. There followed a sharp downturn of globalization which can be called The Great Reversal. Beginning in the late 1970s, a second wave of globalization took hold which took the integration of global markets much deeper. (Jones, 2005a; Jones 2014; Ghemawat and Jones, 2017).

There was massive investment by Western firms in emerging markets during the first wave of globalization. As Table 1 shows, foreign direct investment reached high levels relative to the size of the world economy – and majority of it was in developing countries. Latin America and Asia were especially important as host regions, representing 33 and 21 per cent respectively of the total world stock of FDI. According to Wilkins (1994), the ten largest hosts included Russia, Argentina, Brazil, South Africa, India, China, Egypt and Mexico.

The drivers of this investment in emerging markets are wel1-understood. As the Western world industrialized and urbanized, firms launched a search for the minerals, commodities, and foodstuffs needed by the developed world, and constructed the physical and services infrastructure needed to exploit them. The low incomes of the non-Western world meant that they were of little interest as markets, except for basic clothing. Famously, exports of British and other Western textiles flooded into India and other countries, helping to decimate their traditional textile industries.

Table 1 Multinational Investment in Emerging Markets 1914-2007

	World FDI Stock ($ billion)	% of World Output	% in Emerging Markets	World FDI Inflows ($billion)	% in Emerging Markets
1914	14	9.0	63	na	na
1960	54	4.4	32	na	na
1980	551	4.8	22	59	34
1990	1,941	8.5	27	225	14
2007	15, 602	27	29	1,833	27

Source: Dunning and Lundan, *MNEs*, p. 175; *World Investment Report* (1992) and (1995); *World Investment Report* (2008), pp.10, 257-60.
n.a. not available

The Great Reversal was triggered by the Great Depression, and in particular the policy response in the form of exchange controls and tariff barriers. There was a dramatic fall in international trade, and the growth of multinational investment virtually ceased. The spread of nationalistic, anti-foreign governments, sharply raised political risks during the 1930s, further prompting firms to form cartels rather than risk investing in foreign countries, or employ other non-equity forms. The growth of tariffs in interwar Latin America, for example, led US MNEs to subcontract production of their brands to local manufacturers. World War 11 devastated Europe and much of Asia, and eventually led to the expropriation of German and Japanese FDI.

As is evident from Table 1, the Great Reversal saw a sharp fall in the relative importance of emerging markets in world FDI. This was driven in part by wide-ranging expropriation combined with divestment as a response to political risk. The Communist Revolution in Russia in 1917 had resulted in the expropriation of a large amount of Western FDI, as Russia had been one of the world's largest host economies. The spread of Communism to China and Eastern Europe after World War 11 shut off further large parts of the globe to capitalism. The dismantling of Western colonial empires, the spread of government restrictions on foreign firms in most of postcolonial Asia and Africa, further decimated Western multinational investment in developing countries. There was a widespread expropriation of foreign ownership of natural resources during the 1970s, although it is important to note that in important industries such as oil, this was effectively a shift in mode of entry from ownership in the form of concessions to contracts. In 1929 India, China and many other emerging markets where still among the top twenty hosts for FDI. (Wilkins, 1994) By 1980 levels of FDI in those countries was zero, or close to zero. Overall only just over one-fifth of world FDI stock was located in developing countries, and around a third of inward FDI flows. By that date, the integration of worldwide capital, commodity and labor markets as a whole remained much less than sixty years previously.

There is no consensus when the contemporary era of globalization began. A good case could be made for dating it to the 1960s, especially because of the appearance and growth of global financial markets, which eventually undermined governmental restrictions on capital movements. However, insofar as political factors had driven de-globalization, it is more appropriate to take China's adoption of market-oriented policies in 1978 as chronological starting point for the new global economy. The subsequent growth of the Chinese economy set off a chain of pressures and events which encouraged developing countries, especially India to 1991, to follow suit. The advent to power of the right-wing, free-market governments in Britain and the United States respectively, in 1979 and 1980, and the collapse of the Soviet Union at the end of the 1980s, fueled the momentum which drove down barriers to global capitalism and foreign investment. During the 1990s globalization was given a further massive push by the advent of the World Wide Web and the digital age. Table 1 shows the subsequent growth of FDI stock and flows, which assumed an unprecedented importance of foreign direct investment in the world economy in 2007, the year before the global financial crisis which has led to nearly a decade of stagnation or even decline in investment levels.

The new political environment transformed the opportunities for Western MNEs in emerging markets, at least until the new century. Restrictions on foreign ownership, pressures to make joint ventures with local firms, trade barriers and exchange controls, melted away or were greatly reduced. Deregulation and privatization opened up sectors such as telecommunications which had long been closed to foreign companies. Indeed, practically every government on the planet offered incentives for MNEs to invest in them. It was striking, however, that although FDI in developing countries increased rapidly, it showed no signs of recovering to the relative importance it had once held in the first global economy. (See Table 1) A major reason was that FDI stock and flows were so concentrated geographically. In 1990 Asia accounted for two-thirds of all FDI inflows into the developing world. In 2007 China and Hong Kong alone accounted for nearly one-third of total FDI inflows into the developing world, and Brazil accounted for a further 7 per cent. In contrast, India, Russia, and most of Africa and Latin America received limited investment, despite large-scale liberalization of regulation. The nature of political risk assumed new, and often more subtle, forms. There was no reversion to the era when Western firms, supported by their home governments, could dictate their terms to developing countries. International law was clear that property could only be taken for a public purpose, and that compensation had to prompt and adequate, but countries sometimes ignored the law, and there were many arguments about what constituted prompt and adequate compensation. Nor was the protection of intellectual property effectively secured by international law.

The extent of Western multinational investment in emerging markets, then, has varied considerably over the last hundred and fifty years. The following sections look at multinational strategies and management in the three distinct eras in the history of the global economy.

IB Strategies in the First Global Economy

IB strategies are in part fully explicable by existing theories. Western firms had ownership advantages in organization and technology. Emerging markets had locational advantages in natural resources and cheap labor. Transactions cost theory explains patterns of vertical integration in minerals and agricultural products. Problems of quality control from situations of information asymmetry, for example, encouraged vertical integration in tropical fruits such as bananas. However many emerging markets had characteristics which were distinctive from developed countries, whose setting was the basis for the development of the theory of multinational enterprise, and this shaped distinctive managerial strategies. Among these distinctive characteristics was a legacy of constrained autonomy and colonialism, institutional voids or at least frailty, and long bouts of turbulence. (Austin, Davila and Jones, 2017).

Management strategies were shaped by context in each historical period which provided a mixture of opportunity and risk. Four broad environmental factors determined the trade-off between opportunity and risk. The first was the prevailing political economy, including the policies of both host and home governments, and the international legal framework. The second was the market and resources of the host emerging market. The third factor was the state of transport and communications infrastructure within countries, and connecting them to the rest of the global world. The fourth factor was competition from local firms. The impact of these factors on multinational strategies is shown in Table 2 during the three eras of globalization.

Table 2 Multinational Strategies in Emerging Markets in the Three Eras of Globalization

Context	First Global Economy 1850-1929	Great Reversal 1929-1978	Second Global Economy 1978 -
Political Economy	High receptivity; international law and imperialism support Western firms; institutional frailty	Expropriation; Import Substitution; exchange controls; foreign ownership restrictions; institutional frailty; turbulence	Liberalization; sovereign and assertive governments; institutional frailty; turbulence
Markets and Resources	Low incomes; cultural differences; vast natural resources	Limited convergence; foreign ownership restricted.	Globalization; tribalization; low cost labor; rising middle class incomes
Transport and Communication Infrastructure	Costly, but costs falling	Transport improving	Sharp fall in communications cost with Web
Local Competition	Embryonic	State-owned companies; private enterprise curbed	Growing private-sector; state-owned enterprises
IB Strategies	Co-opt local elites as partners; seek home country support; overcome logistical challenges; build global value chains	Divest; invest in West; forced negotiations; use joint ventures and local participation	Access low labor costs; adapt to local markets and politics; build and distribute global value chains

The strategies of Western firms benefitted from a favorable political context. The spread of Western imperialism dramatically reduced the political risks of doing business in colonies. By the late nineteenth century European colonial governments rarely acted as direct agents of Western firms, and their general impact is better seen as improving the environment for all entrepreneurs, both because of improved institutions and investment in infrastructure. Yet by imposing and enforcing Western laws they made it much safer for Western firms to invest. Oftentimes they awarded such firms huge concessions as incentives to invest in territories whose infrastructure was completely undeveloped and whose terrains were often challenging. A classic instance was when the colonial government gave the British soap manufacturer Lever Brothers an exclusive concession over a huge area of the Belgian Congo in 1911, which was intended to be used as plantations to supply the company with palm oil. (Wilson, 1954)

In countries which were not formal colonies, local governments were even more desperate to attract modern technology and skills, as economic development offered the only way to resist the power of the Western nations. Western firms were able to negotiate exclusive and very favorable concessions with local political elites, who often preferred to award such contracts to foreign entrepreneurs rather than build up domestic rivals. In Mexico, which lost half its territory over the course of the nineteenth century to the United States, British and American firms negotiated exclusive concessions with Porfirio Diaz, the dictator between 1876 and 1913, who sought to modernize his country to prevent its further humiliation at the hands of the Americans. The British firm of S. Pearson & Son, for example, was given vast construction contracts for harbors and railroads, and from 1902 onwards also oilfields. (Garner, 2011) In

Central America, dictators in Guatemala and elsewhere gave United Fruit and other firms huge concessions to develop banana plantations and related infrastructure. (Bucheli, 2005) Throughout Latin America, as well as elsewhere, Western firms negotiated concessions to construct and generate power and light systems – resulting in the electrification of many of the cities of the sub-continent, and most of the developing world, by 1914. (Hausman et al, 2008). Typically concessions were generally free of tax and most other regulations. American or British diplomats, or gunboats, made sure such contracts were enforced.

In terms of the theory of multinational enterprise, in the age of imperialism, Western MNEs experienced few “liabilities of foreignness.” Indeed, they could be considered to have captured many of the benefits of being “insiders” in their business systems. (Johanson and Vahlne, 2009) This was not only because of social and cultural connections to colonial regimes, but often more importantly, close connections with other Western firms active in those countries. Western banks, trading companies, shipping companies, plantation and mining ventures not only interacted regularly in host economies, they were also quite frequently linked through equity, non-equity and other links into the same business group. (Jones, 2000).

MNEs rarely had to adjust or innovate in their strategies in response to competition from locally-owned firms, as there was limited competition. The major exceptions occurred in Japan, where local firms succeeded in challenging Western banks, shipping and trading companies; in India, where a modern cotton textile industry was created by the small Parsee ethnic community; and in some Latin American countries. For example, in Uruguay, Argentina and other countries, there was a growth of locally-owned banks from the late nineteenth century, which successfully challenged Western banks. (Jones, 1993) More unusual was the success of the Bolivian entrepreneur Simon Patiño in displacing the foreign companies which had initially developed the Bolivian tin industry to become the largest Bolivian producer of tin concentrates before 1914. Subsequently Patiño bought smelters in Britain and Malaya, becoming one of the leading players in the global tin monopoly. (Geddes, 1972)

There is limited evidence, then, on the impact of local competition on the strategies of Western firms before the 20th century. One of the most interesting examples occurred in the opium trade between India and China in the nineteenth century. This trade was initially dominated by Scottish merchants, primarily the trading houses of Jardine Matheson and Alexander Dent. Vast fortunes were made. By mid-century, their business was challenged by the Sassoon's and other Baghdadi Jews who had fled from the Ottoman Empire and settled in British India. The Sassoon's were able to rapidly gain market share from the British trading companies selling opium to China. They integrated vertically by becoming bankers to the opium crop dealers in India, enabling them to control production, and they took control of the local opium auctions in India along with other Baghdad Jewish families. Dent's went bankrupt in 1867, but Jardine Matheson responded to lower cost local competition in a fashion which later other Western MNEs would follow. It withdrew from opium trading, itself under an increasingly cloud of legitimacy as its dangerous medical consequences were realized, and shifted into higher value-added and more respectable activities, including shipping, ports and railroad building, in which it held stronger advantages in management and access to finance. (Jones, 2000; Connell, 2004)

The major strategic challenges faced by Western MNEs, then, lay more in execution in the face of the poor transport and communications infrastructure. Finding oil when exploration techniques were primitive; transporting oil from where it was found to where it could be shipped to consumers; building bridges and railroads in inhospitable and physically dangerous terrains; turning malaria-infested tropical lands into banana plantations, were all massive technological, financial and organizational tasks. They were, however, essential because investment strategies were heavily focused on supplying commodities and foodstuffs – whether minerals, petroleum, bananas, tea or beef – to global value chains. Most minerals and agricultural commodities were exported with only the minimum of processing. This meant that most value was added to products after they left producer countries.

The MNEs which succeeded in this era, then, needed the technological, and especially the organizational, capabilities required to overcome major logistical challenges. In the case of Pearson in Mexico, for example, the firm transferred best-practice engineering capabilities to its construction projects, proceeding where others failed. In contrast, the firm's oil exploration efforts failed miserably until high quality geologists were hired from the United States. (Jones and Bud-Frierman, 2016) However organization mattered more than technology. The Singer Sewing Machine Company, a rare case of a manufacturing company which sold products to emerging markets, expanded globally from the 1860s until it held a 90 per cent share of world sewing machine sales by 1914, including in India and other emerging markets. The firm's technology was broadly comparable to other firms, and its success lay in a series of organizational innovations including enabling potential consumers to buy the product using hire purchase, and establishing a direct sales force which enabled it to sell machines, and collect payments. A striking feature of this firm was that these organizational innovations originated in host economies as the firm expanded globally, being subsequently transferred throughout the organization. (Carstensen, 1984) This firm depended more on its organizational capabilities than insider advantages, and more developed markets remained the most important part of its business.

An important managerial capability was to adapt to the quite different legal, market and cultural contexts of emerging markets without losing original capabilities. The overall strategy of successful British overseas banks in Asia and elsewhere, for example, showed little innovation. They focused on trade finance and foreign exchange, and as in Britain, short-term lending was the norm, and equity stakes in industrial or agricultural ventures were never taken voluntarily. The execution of this strategy, however, was more radical. While in Britain, banks would always lend on the basis of security, usually property, in many developing countries this was not an option, sometimes, as in Iran, because of legal restrictions on the foreign ownership of property. British banks ended up, as a result, lending against share certificates, commodities, and even a person's reputation. They also engaged in extensive lending and borrowing with indigenous bankers, whether compradors in China, shroffs in Sri Lanka, or sarrafs in Iran. (Jones, 1993)

The MNEs which succeeded most in developing countries in the first global economy, then, combined contact capabilities with colonial regimes and other Western business networks with organizational capabilities, especially the ability to respond flexibly but effectively to often more unpredictable and challenging operating conditions than in their home countries. The logistical challenges of doing business in the emerging markets were by far the greatest managerial challenge.

IB Strategies in Emerging Markets during the Great Reversal

The previous strategies of Western MNEs contributed significantly to the growth of restrictive, anti-foreign policies which now excluded them from many emerging markets. The close links between companies, colonial regimes and oppressive dictators served to undermine the legitimacy of global capitalism in the eyes of many people. There seemed to be few benefits to countries and their peoples of foreign MNEs, and huge downsides. Many of natural resource investments in the first wave of globalization had been highly enclavist. Foreign firms had been large employers of labor. US mining and smelting properties in Mexico alone are estimated to have employed more than 500,000 in 1915, but here and elsewhere expatriates held all the skilled and managerial posts. (Headrick, 1988; Wilkins, 1970) It was a similar story with the French-controlled Suez Company, which built and operated the Suez Canal in Egypt between 1854 and its nationalization in 1956. The Canal had a major stimulus on the Egyptian economy, but until 1936 the Egyptian staff was almost exclusively unskilled workers. (Piquet, 2004)

Given that the major challenges faced by Western multinational firms were political and regulatory, responses to political risk rose to the forefront of corporate strategies. The end of imperialism, and the adoption of more assertive government policies in many emerging markets, did not initially prompt MNEs to divest their investments. Indeed, there was initially considerable optimism among Western firms after 1950 about the economic prospects of Latin American, West African and Asian countries. This prompted new Western multinational investment, as firms were anxious to get a share of what looked fantastic growth opportunities. German MNEs, for example, invested heavily in a number of developing countries, especially Brazil, but also Argentina, India and Iran. By 1961 38 per cent of all German FDI was in emerging markets. But as political and economic problems mounted, German firms shifted their attention to Europe. By 1971 only 20 per cent of German FDI was in developing countries. (Schröter 1993)

During the 1960s and 1970s there was a general exodus from emerging markets. As taxes and regulations grew in India, British firms and shareholders sold their interests and investments to Indian-owned business groups such as the Tata's and Birlas. (Jones, 2000) Most major US firms, including IBM, also fled from India in response to government insistence on majority ownership of their affiliates. In Malaysia, British companies remained prominent during the 1960s, in part because the new ethnic Malay government was concerned to keep a check on the minority, ethnic Chinese business sector. However the strategies of the British firms were molded by the post-colonial government, and as frustration with the government mounted, and concerns about the future, the long-established merchant houses began to seek opportunities outside the country. (White, 2004) In the late 1970s and early 1980s, steps were taken to reduce the role of British and other Western firms in the plantation and mining sector even in Malaysia. In 1981 the Malaysian government, using adroit moves on the London Stock Exchange, secured control over the largest British rubber and oil palm business in Malaysia, the Guthrie Corporation. (Yacob and White, 2010)

As tensions mounted between governments and firms, sometimes MNEs sought the assistance of their home governments to resist expropriation. In the early 1950s, United Fruit lobbied extensively, making expert use of public relations consultants, to secure US intervention against the democratically elected government of President Jacobo Arbenz in Guatelama, after he had sought to expropriate the millions of unused lands which they held as part of their banana empire. Arbenz was overthrown by a CIA-orchestrated coup in 1954, and a military dictatorship installed. (Jones and Bucheli, 2016) The nationalization of the Anglo-Iranian Oil Company's oil concession in Iran in 1951 was also eventually met by a British and American orchestrated coup which overthrew the government in 1953, although in this instance Anglo-Iranian, and its stake in the Iranian oil industry, was marginalized during the years leading up to the coup. (Bamberg, 1994)

By the 1970s Western companies were rarely able to directly topple governments, even when they wanted to, but involvement in the politics of developing countries with fragile governance systems did not cease. In 2004 a United States Senate report carefully documented the role of US oil companies and financial institutions in making and laundering corrupt payments over the previous decade to political leaders in Equatorial Guinea, a poor West African country rich in oil and other natural resources, whose government was deeply implicated in human rights abuses. Oil companies paid for scholarships for children of the country's leaders, went into joint ventures with government officials, and rented property from the ruling family and their supporters, with the apparent complicit knowledge of the US Embassy (US Senate, 2004).

Most MNEs, if they did not divest, strove to adjust their strategies to postcolonial realities rather than thwart them. In British colonial Africa, there was a widening rift between British firms and colonial governments as states such as Nigeria and Ghana approached independence. (Stockwell, 2000; Tignor, 1998) The firms shifted their political networks to the emerging elites of these countries. British banks, traders and manufacturing companies used their advertising to remold their corporate images as agents of modernity and economic development in West Africa. This strategy met with considerable success, at least until the 1970s when the spread of dependency and socialist ideologies seriously challenged the legitimacy of capitalist enterprise. (Decker, 2007)

There were other strategies also to align the interests of MNEs with changing political realities. Among the most important was the localization of staff. The Anglo-Dutch consumer products company Unilever began experimenting with appointing nationals to managerial positions in India and Ghana in the 1930s. The localization of its management in developing countries intensified thereafter, driven in part by a desire to reduce costs. While in 1940 virtually all of Unilever's managers in Hindustan Lever, its Indian affiliate, were expatriates; by 1950 it only had 50 expatriates, and by 1966 there were only 6 expatriates out of a total of 360 managers in what had become one of India's biggest companies. Encouraged by the government, Unilever also sold 10 per cent of the equity of Hindustan Lever in 1956, and appointed an Indian national as chairman in 1961. Although Unilever disliked selling equity in its affiliates, it pursued localization of management vigorously. By 1966, of the 2,965 Unilever managers in developing countries, only 8 per cent were expatriates. (Jones, 2005b; Jones 2013)

The localization of staff is significant in explaining the scale and scope of Unilever's business in developing countries during these decades, which was strikingly large compared to its major US competitor Procter & Gamble, which only had operations in a handful of emerging markets, including Mexico, Peru, Philippines and Venezuela, before the 1970s, primarily because of fears about political risks and hyper-inflation. (Dyer et al 2004) It provides an important part of the explanation how Unilever was able to retain control over large businesses in countries such as India and Turkey where FDI as a whole dropped to low levels as a result of government exchange and price controls, as well as demands for majority equity participation in local subsidiaries. The early localization of senior management was critical in providing voice, contacts and legitimacy in such countries, embedding the firm in local business and political systems. Unilever identified, and promoted to the most senior positions, some of the best business leaders of their generation in these and other developing countries. This meant not only that Unilever's businesses were managed by good people, but also that it was able to function as a quasi-insider within governmental and business networks in countries. (Jones, 2013)

In Unilever's case, there were other considerations also. It was already selling and manufacturing in India in the interwar years, and entered Turkey in 1950. As Import Substitution Industrialization regimes were adopted, Unilever was well-situated inside protected domestic markets, even though it had to contend with price and capacity controls, dividend limitations and other government regulations. Unilever was able to transfer brands, technologies and marketing methods from its businesses in developing markets, and exploit them behind tariff walls. Unilever's decentralized management structure permitted flexibility in adjusting to the different environments in these countries. In countries such as India and Turkey, the company made margarine from sunflower oil and toilet soap from palm oil. It invested in tomato puree, jasmine plantations and chemicals. It exported shoes to met government-imposed export quotas. It engaged in rural development in India, and built its own power plants to run factories. This flexibility helped the local managers of the company, especially during the fraught 1970s, to engage in prolonged negotiations to delay government plans for local subsidiaries to become locally-owned. In both countries, as a result, Unilever was able to retain majority control until the early 1980s, when pressures for localization abated. (Jones, 2013)

Unilever's strategy in developing countries rested on patience regarding rates of return. Unilever took a long-term view that sooner or later as incomes rose, people in every country would want to consume the company's products. It accepted low dividend remittances for years, or decades, from both India and Turkish businesses, as well as many countries in Africa, both to build up businesses, and to wait for better times. It made large investments in plant and equipment - often at the expense of short-term remittances for dividends to its shareholders – in order to build sustainable businesses. Only a firm of its size and financial strength, as well as willingness to put managerial imperatives ahead of shareholder interests, could take such decisions. (Jones, 2013)

Learning to negotiate with the governments of emerging markets was the key to corporate success in this era. The case of the Brazilian automobile industry illustrates its importance. During the 1950s the government of President Juscelino Kubitschek implemented strategies to encourage foreign firms to build an automobile assembly industry in his country. The strategy involved both foreign exchange and tax subsidies, alongside the progressive closure of the market to imported finished vehicles. Despite multiple pleas from the government, Ford, which assembled vehicles from kits and had dominated the market, refused to invest in automobile assembly, as did its major US rival, General Motors. Instead Germany's Volkswagen, which had no production beyond its home country before 1956, successfully entered vehicle production. By the mid-1960s, Volkswagen had captured over 40 per cent of the expanding Brazilian market, while former market leader Ford had been reduced to 6 per cent, and General Motors to 7 per cent. (Shapiro, 1994)

MNEs in the resource sector had less scope to negotiate with governments. From the late 1960s governments in most developing markets moved to take over foreign ownership of the natural resources in their countries. Often this was done by outright nationalization, which left companies little to negotiate about except, if they were fortunate, compensation terms. In more pro-Western countries, such as Malaysia, state-owned companies were used as vehicles to buy the foreign companies which owned the country's vast rubber and oil palm plantations, with domicile then being transferred back to Malaysia and the management localized. (Jones, 2000) Whilst local ownership over natural resources became a matter of principle for many governments, control was another matter. In the case of plantations, Western companies often negotiated long-term purchasing and technical contracts with local producers, leaving them with the most valuable parts of the commodity value chain – transport and distribution – whilst relieving them of the embarrassment of employing and managing tens of thousands of impoverished plantation workers. (Jones, 2005b)

The limited scope for negotiation was especially evident in the petroleum sector. The large Western oil companies, which counted amongst the largest capitalist enterprises on the planet, found themselves especially exposed to growing political risk in the Middle East and Latin America. Although the attempt to nationalize the oil industry in Iran in 1951 was thwarted, there was growing pressure from host countries for more control over their own resources, and for more participation in the benefits of oil, as energy consumption boomed during the postwar era of economic miracles in Europe and Japan, and as the United States was transformed from being an oil exporter to an oil importer. In 1960 Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela formed the Organization of Petroleum Exporting Countries (OPEC). In 1968 OPEC issued a statement declaring the inalienable right of oil producers to exercise permanent sovereignty over their natural resources. In 1970 Libya began a process of countries demanding greater shares of the profits from their oil; by 1972 countries were demanding shared participation; and after the

Arab-Israeli War of 1973, governments in the Arab world began nationalizing their industries. Venezuela nationalized its large oil industry, in which Shell was a major investor, in 1975.

These events undermined the business model based on vertical integration which was central to how the oil industry had operated since the late nineteenth century. The momentum behind the new policies left the oil companies little negotiating flexibility to stop them. Instead there was innovation in new strategic directions. The most successful new strategy involved switching their exploration efforts towards finding oil in Western countries, such as the North Sea and Alaska. Both terrains posed challenging geological and logistical conditions, making exploration a high-risk endeavor. In the end BP, which was heavily dependent on Middle Eastern oil and faced a threat to its existence, secured its future by making major discoveries, just in time, in Prudhoe Bay, Alaska and the Forties, North Sea, in 1969-70. Shell also made major exploration efforts offshore, and was especially successful in the North Sea. Two other strategies were pursued. First, as developing countries established their own oil companies on the basis of the nationalized assets, Shell in particular, but also the other companies, sought to enhance their technical skills, and become providers of technical services to these companies. This proved quite successful also, although the Kuwait Oil Company and other national oil companies quickly developed managerial and technological competences. (Bamberg, 2000; Sluyterman, 2007)

In the first era of globalization, Western MNEs had paid limited attention to the consumer markets of developing countries, as they were too poor to buy anything but basic items. After World War 11, this strategy began to slowly change, but there were major issues of what to sell, and how to sell it. In consumer products, firms initially transferred products from developed countries to developing markets as their incomes rose. There was little product innovation as such, therefore, although sometimes brand images were changed, and sometimes consumers themselves found new uses for products. Because little attempt was made before the 1980s to reformulate shampoos for none-white ethnicities, for example, Vaseline petroleum jelly, created in mid-nineteenth century America and used as soothing skin cream, became widely used in postwar Africa as a hair product. (Jones, 2005b)

The direct transfer of Western consumer products to developing countries was sometimes highly problematic. The adverse consequences of the marketing of baby food by Nestlé became a cause célèbre, as it emerged that mothers regularly mixed the formula with polluted water, or else effectively starved their babies as they could not pay for a sufficient amount of the product. (Bader, 1980) As deleterious was the spread of cigarette consumption. From the early twentieth century Western tobacco companies had played an inglorious role in using their marketing and distribution capabilities to grow cigarette consumption in Asian and other developing countries. During the second half of the century, as health concerns and consequent regulation mounted in developed countries, cigarette MNEs expanded their businesses in developing countries. (Shepherd, 1989; Yach and Bettvher, 2000)

In many other cases, the attempt to transfer Western consumer products to developing country markets was just commercially unsuccessful. During the 1960s, for example, Unilever tried to sell its margarine in Thailand, only to discover that in countries which ate rice rather than bread, the market was strictly limited. Similarly, Unilever's early attempts to sell ice cream in countries where electricity supplies were unreliable were not successful. Nor were attempts to sell branded convenience foods to countries where the urban middle class ate out cheaply on street stalls or in restaurants, while the rest of the population was too poor to buy branded products. It proved somewhat easier to sell some beverages to developing countries. Nestlé's Nescafe instant coffee, invented in 1938, proved to be remarkably global food product. (Jones, 2005b)

There was also innovations in how to market consumer products to emerging markets in the era of the Great Reversal. In the beauty industry, for example, Western MNEs made markets and created consumer desires in Latin America. Marketing strategies were skillfully adjusted to local conditions. In interwar Brazil women seldom read newspapers, the traditional medium used elsewhere by toiletries and cosmetics companies for advertising. So Unilever switched to the more popular medium of radios. Latin American women were enticed with the opportunity to emulate the latest beauty fashions of the United States and Europe. American and European models were used in advertisements by the big cosmetics companies such as Max Factor. However Ponds cream was advertised using Mexican celebrities during the 1930s, while Colgate-Palmolive, Unilever's U.S. competitor, featured famous Mexican singers such as the Aguilar Sisters on its weekly radio program. (Jones, 2017)

It was Colgate-Palmolive which pioneered the radionovela concept in interwar Cuba, drawing on its promotion of the so-called soap opera radio serials in the United States. It proved an effective tool to grow the market for toiletries in Latin America. The same firm sponsored the first radionovela in Brazil in 1941. The advent of television during the 1950s provided a new medium. A pioneering Mexican telenovela, which became such a distinctive Latin American cultural genre, came in 1958, when Televisa's Canal 4 showed the Colgate-Palmolive- sponsored *Senda prohibida*. (Jones, 2017).

The most important multinational in the Latin American beauty industry was Avon, the company which pioneered direct selling of cosmetics in the United States. In 1954 Avon, opened a new manufacturing business~~es~~ in Puerto Rico. Over the following decade manufacturing and selling operations were started in Venezuela, Cuba, Mexico and Brazil. Direct selling was perfect for Latin America. In most countries, there were few department stores and only fragmented retail channels. Direct selling by sales representatives enabled Avon to reach women in their workplaces and homes. By 1960 Avon had secured strong market positions in many countries, including Venezuela, where it controlled half of the cosmetics market.

Avon was enormously skilled at marketing cosmetics. When it entered a new market, it began with acquainting representatives and customers with the Avon line. It provided representatives with the desirable products at good prices, so providing them with an attractive earning opportunity. It tailored its strategy to local circumstances. It invested heavily in cosmetics education in countries such as Venezuela, which at the time used few cosmetics. In Brazil Avon responded to prevailing gender norms which disapproved of women working outside the home by a campaign to portray direct selling as a respectable activity akin to marriage. It also created a new accounting system in response to escalating inflation rates during the 1960s. (Jones, 2017)

In the 1970s a handful of Western firms began to invest in product innovation designed to deliver products especially for emerging markets. Unilever's large Indian affiliate, Hindustan Lever, which had created its own research facilities in the 1950s, was among the pioneers. It began selling its own distinctly Indian shampoo and toothpaste brands, as well as brands from Unilever's global portfolio. More interesting, was the creation of Fair & Lovely skin-lightening cream in 1978. This was cream designed to appeal to a traditional regard for fairer skin in India. The origins of such preferences lay deep in Indian history, which some traced back to the origins of the caste system two and a half thousand years ago, when fair-skinned foreigners established a class system with the indigenous darker-skinned local population at the bottom. Much later, the era of British rule introduced a new set of rulers with lighter skins. Hindustan Lever now applied its scientific and branding capabilities to translate such cultural preferences into a highly successful brand, which became the best-selling skin care brand in India. Fair & Lovely was based on a patented formulation containing an active ingredient which controlled the dispersion of melanin in the skin. The brand's advertising promised greater fairness within six weeks of using the product, and from the beginning the brand emphasized the improved marriage prospects of fair-skinned women. Considerable use was made of endorsement by celebrities from the huge Indian cinema industry known as Bollywood, whose leading actors and actresses were overwhelmingly fair-skinned. (Jones, 2010)

In most countries, if Western MNEs stayed, or were allowed to stay, they faced limited competition from local firms. Indeed, the government policies of this era were often as destructive of local capitalist enterprise as they were of foreign investment. In 1952 Bolivia, for example, became the first country to take over its tin industry. Although the Patiño group remained important in the marketing and smelting of tin, it was fragmented because of the loss of ownership of the mines. The same phenomenon was seen in Africa. Egypt had a highly developed private sector in an African context. Yet, by the 1960s, its large-scale private sector had been entirely dismantled by government policies. Nigeria's business communities, which had once appeared as dynamic forces, lost energy as they became deeply engaged in the ethnic and regional rivalry that became a feature of the country.

As governments imposed extensive regulatory regimes, local entrepreneurs in developing markets grew their businesses more by using “contacts” rather than building technological and organizational capabilities. This did not necessarily prevent the creation of large firms, although it usually provided a weak foundation for competitiveness against Western firms, apart from their close connections to their government.

India provided one case where local firms were able to slowly build organizational capabilities, despite the inefficiency and corruption of the country’s quasi-socialist planning system. Indeed, the era laid the basis for India’s subsequent success in information technology. During the 1960s and 1970s a handful of locally-owned firms were established to develop and run applications software for Indian companies and research institutions that had brought or leased mainframes from IBM and other US companies. Tata, which was India’s largest business group, established the first of these firms, Tata Consulting Services in 1968. In 1977 when the Indian government tightened the laws on foreign ownership of firms in the country, IBM and other US firms divested, opening new opportunities for the Tata venture, and for subsequent start-ups such as Infosys. The Indian firms built a strong trade association, NASSCOM, which sought to enhance and certify the quality of Indian firms. By the time policy regulation got underway in 1991, which gave Indian IT firms a freer hand in establishing marketing offices abroad and serving foreign clients, it had built strong organizational capabilities (Parthasarathy and Aoyama, 2006).

One early challenger to MNEs came in detergents, where Nirma Industries challenged the long-established hold on the Indian market by Unilever by introducing a game-changing low-priced detergent. The Indian fabrics market until then had been dominated by hard soap, and

Unilever's expensive, premium powder brand Surf was decimated after 1975 when Nirma launched a powder at parity with hard soaps, but with much better washing powder, providing a new value for money concept. Having begun with such low price products, Nirma moved up-market with products which directly competed with Unilever's customer base and took market share from them. It was only after a significant delay that Hindustan Lever was able to respond with low cost but quality product, although it turned out that this traumatic episode exercised a long-term impact on Unilever's strategy in developing markets. (Jones, 2005b)

The MNEs which succeeded best in developing markets in this environment tended to have decentralized management systems which were capable of turbulent economic and financial environments, dealing with high levels of intervention by governments, and the disruption of global value chains.

IB Strategies in Emerging Markets in the Second Global Economy

The era of the second global economy enabled MNEs to pursue new strategies. In particular, the lowering of barriers to foreign companies in many emerging markets, combined with transport innovation such as container shipping and by digital communication, enabled Western firms to exploit the low cost labor of developing countries. The transfer of assembly facilities to low wage locations in developing countries, which were frequently free trade and low tax zones, had been pioneered by the semiconductor industry as long ago as the 1960s. South-east Asia and Mexico were initially the major locations. By 2000 1.3 million Mexicans were employed in foreign multinational owned factories that assembled imported components for export, mostly located just over the border with the United States. These *maquiladoras* accounted for over 40 per cent of total Mexican exports. (Jones, 2005a)

By then the outsourcing of multinational production to China had become a major trend, making that country essential to global value chains. Apple provided a prominent example. Apple began outsourcing to the Taiwanese company Foxcomm in the late 1990s. The company had close relations with local government officials in China who provided cheap land and subsidies. When the iPhone was launched in 2007, Foxcomm secured agreement with the local government in Zhengzhou to subsidize the building of an industrial park located inside a bonded zone, with customs facilities at the factory gate to facilitate iPhone exports. The local government provided billions of dollars of subsidies, and recruited and trained a manufacturing workforce which by 2016 amounted to 350,000 workers. Foxcomm manufactured 90 per cent of Apple's iPhones (Barboza 2016). The heavy reliance on China in global value chains required the managers of Western firms to abide closely to Chinese political and legal requirements, in complete contrast to the case of opium trading in the first global economy. In 2017 Apple had to stop selling virtual private network software which had allowed users in China to access content banned by Chinese censors in the so-called Great Firewall of China. (Kuchler and Seddon, 2017)

The off-shoring of services to developing countries also gained major momentum. In particular, the revolution in the speed of communications through the World Wide Web, satellites and optical fiber cables provided new opportunities for MNEs to reduce costs by locating parts of their value chain in developing countries and by making outsourcing in information technology and offshore services feasible. The off-shoring of IT services from the United States to India which began in the 1980s drove the dramatic growth of Bangalore. (Jones, 2005a)

There were new complexities arising from the changing nature of markets. On the one hand, globalization appeared to be working towards a further homogenization of markets worldwide. Ohmae's "borderless world" and Friedman's "flat world" were among the popular descriptions of such homogenization trends. (Ohmae, 1990; Friedman, 2005) The evidence of flattening seemed visible in everything from the worldwide spread of English to the presence of McDonald's hamburger stores in 120 countries. The growing populations of emerging markets, especially their urban middle classes with rising incomes, resulted in fast-growing markets for industries extending from pharmaceuticals to automobiles.

On the other hand, there were also other processes at work also. The globalization of the ubiquitous hamburger helped stimulate, around the world, a local, cultural, ethnic, religious reaction, which was termed "tribalization" by the political theorist Benjamin Barber. (Barber, 1995) As global markets spread, existing consumer and social groupings began to fragment as local cultures asserted themselves with greater confidence.

To revert to the example of the beauty industry, the result was a new set of marketing opportunities and challenges for MNEs. The opportunities in emerging markets were enormous. In the 1980s the United States, Western Europe and Japan were the dominant markets for the industry. China's consumption of beauty products other than toiletries was close to zero. By 2010 Brazil, China, Russia and India had become the world's third, fourth, eighth and fourteenth largest beauty markets. (Jones, 2010)

The culturally-specific beauty industry was a particularly good example of the tensions between flatness and tribalization in the second global economy. The spread of mega-brands such as L'Oréal Paris skin cream and cosmetics to this new generation of consumers in emerging and transition economies; the globalization of celebrity culture; and the diffusion of the aspirational appeal of New York and Paris. Yet there was also a resurgence of pride in local beauty identities throughout emerging markets. This obliged firms to innovate in ways to make global brands seem locally relevant.

These conflicting trends were evident in the booming China beauty market. As the market began to grow during the 1980s, local brands had been perceived as poor quality and lacking aspirational qualities. As a result, Japanese and Western brands rapidly gained market share, even if product formulations were changed, and if firms responded to local preferences for skin-whitening products. Over time more complex trends became apparent. Chinese consumers seemed to combine great enthusiasm for the aspirational nature of Western-sounding beauty brands with a growing desire for local relevance. As a result, U.S. and European MNEs experimented with Asian-specific executions of global platforms. Many Chinese consumers wanted to see Chinese faces as models, but there remained uncertainty within the industry about how far localization should be taken, and what form it should take. L'Oréal Paris, which had once only used white, preferably French, models, had four leading Chinese celebrities, including Gong Li and Zhang Ziyi, as spokesmodels by 2008, chosen in part to reflect the diversity of China's population. The localization of spokesmodels in China was only one aspect of the search for local relevance. Western companies employed local talent for photographical shoots as a means to getting greater local aesthetic sensitivity. Local ingredients were also featured in global brands, not as in the past for reasons of availability and cost, but to enhance their appeal. Chinese consumers wanted their Western shampoos to include black sesame and ginseng, or to have local herbs in their toothpaste. (Jones, 2010)

During the second global economy, MNEs faced much more effective competition from locally-owned companies, at least in some developing countries. In pharmaceuticals, for example, Western MNEs now encountered successful local companies in India and elsewhere. They were sometimes favored by policies of national preference in contracts and regulations, often out of concerns to provide their populations with cheaper drugs. Some firms in India and China in particular developed skills to manufacture low-cost versions of goods for mass markets. This so-called “frugal engineering” posed a major threat to the higher-cost structures of MNEs from developed countries. (Kumar, 2008) Only a few MNEs were able to develop production and marketing strategies which kept their costs down, and were capable of selling to the world’s poorest at the “bottom on the pyramid”. (Prahalad, 2005) These included Unilever, which after experiencing the onslaught by Nirma pioneered strategies such as selling consumer products in small sachets which the very poor could buy.

In some cases local firms based in large and fast-growing emerging markets became powerful global competitors to Western MNEs. The most dramatic examples included China’s Huawei and the Gulf airlines, Emirates, Etihad and Qatar. In another break from the past, emerging market firms also acquired global businesses and brands from Western MNEs. Examples included Lenovo’s acquisition of the IBM personal computer division in 2005; Tata Motor’s acquisition of Jaguar and Land Rover from Ford in 2008; and Natura’s acquisition of The Body Shop from L’Oréal in 2017.

There were several drivers behind the growth of more competitive locally-owned firms in developing markets. The dynamics of the global economy lowered the barriers for new entrants from emerging markets because of the disintegration of production systems and their replacement by networks of inter-firm linkages. The rapid growth of outsourcing and sub-contracting to contract manufacturers created new opportunities for firms to grow. The growth of global capital markets made it much easier to raise funds, at least if a company was in a well-regarded country, such as India or Chile. The barriers to building managerial capabilities were reduced. Returning diaspora became important sources of managerial knowledge to Chinese and Indian firms. (Pandey, 2004) Both business schools and management consultants provided much easier access to new management knowledge, and assumed important roles in building organizational capabilities. The leaders of many of the largest firms in emerging markets were typically educated at leading American business schools. In some cases, as in China and the Gulf, governments provided powerful financial support to local firms, often state-owned or at least state-affiliated, for strategic reasons.

As local firms in emerging markets gained competitiveness, MNEs with strong proprietary technologies and well-regarded brands were best-placed to compete with local firms which were expert in frugal engineering. MNEs with global design and product capabilities were also able to retain advantages competitive against local rivals, especially if their marketing and other strategies were able to combine their global capabilities with local relevance. Both Western and Japanese MNEs were also able to build advantages in emerging markets, including China, by emphasizing that their products were of the highest quality and safe to both consumers and the environment.

Conclusions

In the first era of globalization, the strategies of MNEs in the developing world had been straightforward. They had sought access to their resources, and governments had frequently given them exclusive contracts and favorable deals in order to build businesses. Innovation had rested more in overcoming logistical challenges to enable minerals and other commodities to be exported into global value chains.

During the Great Reversal, the main challenges faced by MNEs were political. Mounting hostility led many firms to divest, and to invest elsewhere. Politics, exchange controls and trade restrictions curbed the role of emerging markets in global value chains. The MNEs that remained needed to build political contacts with local governments, and attempt to strengthen their local identities, especially by localizing their managements. There was relatively little attempt to adjust products to highly protected markets. There was also relatively little need to adjust to local competition.

In the contemporary global economy, political risks declined with the spread of liberalization and the abandonment of anti-foreign restrictions. There was no sudden reversion to the pre-1929 situation, however, and in major emerging markets, corporate strategies needed to carefully manage relations with the government. China was in an special category in this regard by virtue of the country's size, its accelerating development and technological level, and the special position of the ruling Communist Party. Emerging markets, or at least the larger and more fast-growing ones in Asia and Latin America, were increasingly seen as indispensable by MNEs in every industry. They were both a place to assemble manufactured goods and locate activities in the lower end of global value chains, and a growing market. However there was a growing need in some at least emerging markets to incorporate local relevance into global products.

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