The London School of Economics and Political Science

How the Beast Became a Beauty: The Social Construction of the Economic Meaning of Foreign Direct Investment Inflows in Advanced Economies, 1960-2007

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DECLARATION

I certify that the thesis I have presented for examination for the MPhil/PhD degree of the London School of Economics and Political Science is solely my own work other than where I have clearly indicated that it is the work of others (in which case the extent of any work carried out jointly by me and any other person is clearly identified in it).

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ABSTRACT

Dominant approaches in International Political Economy treat inflows of foreign direct investments (FDI) only as a material fact, a physical flow of capital. The analysis of the perceptions of inward FDI presented in this research, however, reveals that the *meaning* that policymakers and analysts attribute to FDI inflows goes far beyond that. What is more, the predominant interpretation of the meaning of FDI inflows has changed dramatically over time: While they were perceived primarily as a threat to national economic development from the 1950s to the 1980s, they came to be gradually re-interpreted as a sign of economic success in the 1990s. Focusing on these developments in the major OECD economies, this research aims to make sense of this stunning transformation in the social interpretation of inward FDI and to examine the implications of these ideational evolutions for policy outcomes. To do so, the research adopts a mixed methods research design, which combines quantitative approaches with the insights gained from qualitative historical analysis: After providing a nuanced theoretical discussion of the significance of economic narratives in international economic affairs and a broad overview of the key developments in FDI policies and relevant policy discourses in the six largest advanced economies during the post-war era, the research subjects the theoretical argument to two quantitative tests at large cross-national samples using data from public opinion surveys and general election results; finally, a qualitative comparison of relevant developments in the United Kingdom and France analyses the impact of these ideational changes on FDI policy-making processes in empirical depth.

PREFACE

On 31 December 2010 I arrived in Vientiane, the capital of Laos, as a tourist. I was excited to have set foot on officially communist land for the first time in my life. On the same night, at the public New Year's celebration on the capital's main square, an odd detail caught my attention: the beautiful historic surroundings were decorated not only with national flags, sickles, hammers and red stars, but, most prominently, with orange-blueish advertisements for *Tiger*, a popular Asian beer brand owned by *Heineken Asia Pacific*, a Singapore-based subsidiary of the famous Dutch brewing company. It was not exactly the promotion I had expected self-declared Marxist-Leninist party officials to be supportive of. And the youth of Vientiane, presumably having been taught the evils of foreign capitalists throughout their formative years, didn't hesitate to add their endorsement to the powerful multinational. With excitement and pride they held their *Tiger* bottles (which, as I came to learn later, were produced and distributed by the *Lao Asia Pacific Brewery*, a joint venture between *Heineken International* and the communist government of Laos) high up into the night sky. The crowd's enthusiasm about their bland, overpriced and politically incorrect drinks left me confused at first; but suddenly it all made sense as I started to realize that the ugly *Tiger* signs all over the beautiful square were not simply advertisements; they carried an important message: "We are part of the global economy now and that is 'cool'", roared the *Tiger*.

Two years later, when I started familiarizing myself with the existing literature on foreign direct investments in the International Political Economy literature at the beginning of my PhD studies, I had long forgotten the excitement of Vientiane's youth. Reading my way through the field in long hours at the bustling LSE library I realized that nearly all of the recent literature had strongly focused on examining how political factors influence a country's attractiveness to foreign multinationals, but – in contrast to the classic literature on the topic of the 1970s – it gave very little attention to the question why countries *want* FDI. That FDI is 'good' and that governments would want it seemed to be largely taken as an obvious fact, which wouldn't need much explaining. However, to my own surprise, I realized at the same time that this conclusion was not supported by the empirical literature examining the economic effects of FDI, which seemed in effect fairly sceptical and ambivalent about the question whether they are a 'good' or a 'bad' thing. It wasn't that clear, after all, if the *Tiger*'s arrival in Laos was really so great… Puzzled by this apparent divergence between what the economics literature said about FDI and what almost everyone seemed to believe it said, I decided at some point to dedicate my PhD studies to an attempt to better understand why governments around the world were so keen to attract FDI. And when – trying to get a better grasp of the political history of global FDI - I started reading through historical documents, the puzzle just kept becoming more puzzling. I was intrigued to learn that it wasn't only Lenin and his disciples who used to condemn multinationals, but that not too long ago respected members of Thatcher's Conservative party in the United Kingdom, a Democratic presidential nominee in the USA (long before the rise of Trumpism well understood…) and even the editors of the *Financial Times* seemed honestly worried about FDI inflows and sharply articulated the case for more regulations and restrictions on multinationals. The puzzle then was not only why governments were so keen to attract FDI, but also why they used to hate what they now love.

After wrestling with this two-layered puzzle for four long years, I think I have an answer, which – although not successfully explaining every detail of FDI politics of the last six decades – I believe makes some sense. And although it has almost nothing to do with Laos (or beer), it is based to a large extent on the powerful symbolism of FDI that seemed so obvious in Vientiane on 31 December 2010 and which has regularly come back to haunt me since then.

Angling for the sometimes seemingly elusive answer to this puzzle has not always been an easy undertaking, but it was overall a hugely rewarding experience. Mostly so thanks to the many wonderful people I had the chance to encounter during this journey. I acknowledge that life is too short to read long prefaces, but nonetheless I wish to express my gratitude to a number of individuals who made these last four years a period of my life, which I will keep in very good memories.

Without any doubt, my largest intellectual debt goes to my supervisor at the London School of Economics, Professor Jeffrey Chwieroth. I am very glad that I don't need to engage in speculations about the potential counterfactual outcome of this research project in absence of Jeff's continuous input and guidance, for it is obvious that it would be so much worse. I wish to express my gratitude for his inspiration, friendship, generous support and wise advice throughout these four years and for the many pointed and always constructive criticisms, which have kept me focused and the thesis on track.

I also very gratefully acknowledge the significant institutional and financial support that I received from the London School of Economics, as well as from Professor Fabrizio Gilardi and the *Institut für Politikwissenschaft* at the University of Zurich and Professor Rawi Abdelal and the *Weatherhead Centre for International Affairs* at Harvard University, which very generously hosted and supported me for substantial periods of my time as a doctoral student.

Approaching the end of this long journey and reflecting upon how I got into these turbulences in the first place, I realize that I owe much to it to Lloyd Gruber, Darryl Jarvis and Ashish Lall. Apparently their teaching during my graduate studies at LSE and at the Lee Kuan Yew School of Public Policy in Singapore was inspiring enough to shift a notable part of my mind's limited attention-span away from my efforts to save the world towards the (usually) more modest concerns of IPE. Equally, Lauge Poulsen also deserves a special mention for providing critical support at the very beginning of this project and for hitting the ball roughly in the direction of the shape that this thesis finally took on.

For taking their time at some point during the past four years to share their insights and views about what has been my personal obsession during that time and on how to turn the latter into a dissertation, I am very grateful to Robert Falkner, Stephen Woolcock, James Morrison, Colin Hay, Peter Hall, Louis J. Wells, Peter Katzenstein, Cornelia Woll, Leonardo Baccini, David Soskice, Vivien Schmidt, Tarak Barkawi, George Lawson, Joshua Kertzer, Geoffrey Jones, Ronald Krebs, Catherine Boone, Kenneth Thomas, Leonard Seabrooke, Frank Schimmelfennig, Klaus Dingwerth, Clint Peinhardt, Eric Neumayer, Ben Lauderdale and Lauren Philips.

My thanks also go to my many friends and colleagues at LSE, the University of Zurich and Harvard, for sharing the burden and keeping it fun. Some of them inspired me to be creative, while others reminded me to also be rigorous (or to try at least). It is very well possible that the outcome is neither of the two. But I prefer to think that it is a little bit of both. At the risk of omission, Pascal Jaupart and Nathalie Picarelli, Sophie Haspeslagh, Martin Hearson, Joanne Yao, Heidi Ninkang-Wang, Hadi Makarem, Alex Jaax and Sandy Hager more than deserve a special thank you for their contributions to this thesis as well as more important things in life. Furthermore, I would like to use this opportunity to also express my gratitude to Ernst 'Holzbengel' Christen and the late Felix Knüsel, my two good old friends at home, for inspiring me to follow my own passions.

But even with all the excellent advice, the support of my reliable friends and all the coffee of the world, it is needless to say, this project would have gone nowhere without the understanding and support of my beautiful growing little family. I thank Temuulen and Amirlan for some of the most joyful hours of my life that we spent together on the playgrounds of London, Zofingen, Cambridge and Ulaanbaatar, and for keeping me sane by always reminding me of the truly important things in life such as the 'wauwau' passing by, the awesome diggers standing around, the cheekiness of Thomas the train and, of course, being their "avaa!". But my greatest thank you, of course, goes to my wonderful wife Altantsetseg. Somewhat paradoxically, having thought so much about the power of language over these past four years, I finally have to realize that there are simply no words which can appropriately express my gratitude for your unconditional love, patience and understanding. Thank you for making me happier than I ever thought I could be.

Last but not least, I would also like to thank all our family members in Mongolia and Switzerland – and everywhere in between – for always being here for us with a helping hand. I am grateful to my sister Katrina and my brother Raphael and my warm-hearted parents-in-law Baasanjav and Enkhnasan as well as my Mongolian siblings Ganzorig, Altanchimeg and Khulan for their amazing support. My aunt Maja, in whose office substantial parts of this thesis have been written, also deserves a special acknowledgment. But in particular I would like to thank my parents Elisabeth and Urs to whom I wish to dedicate this thesis. The too early death of my dear mother during the difficult third year of this project has painfully reminded me that underneath all the noise, the excitement, and the meaning and significance we crave to see in everything we do, the reality is, at the end of the day, also a sad one. But at least I know how proud she would be if she was still here to see this project finally accomplished; and this alone makes all the hard work more than worthwhile. Thank you for everything.

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INTRODUCTION

The transformation of government policies and attitudes towards foreign direct investment (FDI) inflows over the past few decades has been nothing short of dramatic. In the 1960s-70s national governments in advanced as well as developing economies adopted a great variety of screening mechanisms and other restrictive measures aimed at *regulating* FDI inflows and minimizing their perceived negative impact on the domestic economy. Concerns about the harmful effects of inward FDI for national economic development were widespread and pronounced. For example, commenting on the sharp increases in FDI inflows from the USA in the early 1960s, British Prime Minister Harold Wilson warned that there was "no future for Europe, or for Britain, if we allow American Business … so to dominate the strategic growth industries of our individual countries, that they, and not we, are able to determine the pace and direction of Europe's industrial advance"[1]. And views that inward FDI constituted an economic 'problem' of some sorts were by no means restricted to Mr Wilson or his Labour Party; they came close to being a consensus. Even the *Financial Times*, stern advocate of liberal internationalist principles, called for regulatory action to reduce levels of foreign company ownership in an editorial published in the mid-1960s[2]. Yet, by the early 2000s, most governments had not only removed nearly all restrictive measures on FDI inflows, but had simultaneously created large-scale government programs aimed at *attracting* and *promoting* foreign investment projects. Fears about negative long-term implications of foreign ownership had

[1] Quoted in: Michael Hodges, *Multinational Corporations and National Government : A Case Study of the United Kingdom's Experience, 1964-1970* (Lexington, Mass.: Saxon House, 1974), 228.
[2] "The General Makes One Valid Point," *Financial Times*, 8 February 1965.

dissipated to a large extent. In contrast, UK politicians now celebrated the relatively high levels of inward investment as one of "this country's greatest success stories"[3] and both main parties assiduously elaborated strategies how to attract more FDI. The financial press was no less enthusiastic about the promise and opportunities brought about by more inward FDI, which were variously described as "a boon to the British economy"[4], a "vote of confidence"[5] by global markets or a "source of national pride"[6]. In the 1960s-70 (well understood, a period when the value of the global stock of FDI as a share of global GDP remained below five per cent) policy elites around the world thus tended to worry that they were receiving 'too much' FDI; but three decades later (when the relative value of the global FDI stock had grown at least fourfold to over twenty per cent of GDP) they seemingly couldn't get enough of it… This is somewhat puzzling. How can this sea change in government attitudes and international economic policy be explained?

Existing explanations in IPE and related literatures emphasize the importance of underlying structural changes in the nature of FDI and shifts in political power among groups with differing economic interests. As I will elaborate in more detail, although these factors are helpful, they ultimately seem unable to account for the depth or the timing of this transformation in a satisfactory way. To better understand it, I argue, it is necessary to expand the theoretical focus. For, as I will illustrate in much more detail in subsequent chapters, what has truly changed over the past decades is not so much the material reality of inward FDI but the *perceptions*

[3] Tim Eggar, Minister of Energy and Industry, in: UK Hansard, "Debates in the House of Commons." (28 October 1994), vol 248 cc1115-84.
[4] "Britain's Many Options," *The Economist*, 6 April 1996.
[5] "Sunshine, with a Chance of Showers," *The Economist*, 8 July 2000.
[6] "Foreign, Redirected Investment," *The Economist*, 29 May 2004.

thereof. The thrust of this thesis thus consists of the contention that the observed changes in government attitudes and policies towards inward FDI have been driven to an important extent not by changes in the balance of political power or the material reality of FDI but by transformations in the social interpretation of the economic meaning and significance of FDI inflows – evolutions which have unfolded partly independently of the simultaneous changes in the underlying material reality - that profoundly affected the ways in which individuals and social groups defined their interests towards inward FDI.

A great majority of scholarly work in IPE has shown relatively little interest in the role of perceptions in the world economy, which – following rationalist lines of theorizing – are generally considered as mere reflections of underlying material trends. As I aim to show throughout this thesis, however, they deserve to be studied more seriously because they can be much more than that. Dominant perceptions of economic 'things' – such as FDI inflows – are not just mental mirrors of 'real' things, but colourful *images* that are constructed (or, to follow through the metaphor, 'painted') intersubjectively through complex processes of social interaction. And as such, they form integral parts of broader intersubjectively shared interpretive frameworks. More specifically, the empirical investigation to be unfolded focuses on the role of a type of interpretive frameworks that I conceptualize as *economic narratives*. As socially shared cognitive devices, the primary function of these narratives is not to accurately describe the complexities of the workings of the world economy, but to make sense of them through the provision of intuitively compelling but deliberately simplifying accounts, which emphasize some aspects and downplay others. What they emphasize and what they downplay is consequential, in turn, because – as I aim to illustrate - it affects how individuals and social groups define their economic interests and preferences.

The key development at the heart of this investigation consists of the evolution in predominant economic narratives from the narrative of *statism* to the narrative of *globalization*. In a nutshell, the economic narrative of *statism* that was predominant in the 1960s-70s described the world economy as a system consisting of partly autonomous units of national economies. Albeit participation in the world economy was generally described in favourable terms, it was the strength of domestically owned *national* industries that were considered to be the key actors determining the economic prosperity of nations in the long run. Accordingly, although many observers acknowledged the potential of FDI to add to the domestic stock of capital and to transfer technological and managerial know-how, FDI was generally considered with scepticism because it was seen as a threat that may undermine the development of home-grown industries. In stark contrast, the narrative of *globalization* that rose to prominence in the aftermath of the end of the Cold War depicted the world economy as an integrated economic market in which nationality-less and globally mobile companies figure as the main drivers of innovation and long-term prosperity. Accordingly, the globalization narrative's assessment of the meaning and significance of FDI inflows for national economic development was strongly positive. Levels of FDI inflows came to be seen not only as a driver of domestic economic progress, but at the same time also as a *symbol* of a nation's competitiveness and economic success.

The remainder of this thesis examines these developments in much more depth. In order to do so, it focuses on developments in *advanced* economies, with a particular focus on Britain and France. The temporal focus is on the period starting roughly around 1960 – when the increasing expansion of US MNCs abroad led the foundations for a new period in the history of global FDI - and ends before the Financial Crisis in advanced economies of 2007-09[7]. Developments in non-OECD economies as well as trends emerging in the aftermath of the crisis are only touched upon briefly in the conclusion chapter; systematic investigations of these issues must be left to future research.

The first part of the remainder of this introduction chapter will review existing explanations for the trend towards the liberalization of inward FDI policies and assess their relative strengths and weaknesses. The second part elaborates my own argument and presents an overview of the thesis.

Existing explanations

Despite the breath-taking growth in importance of FDI in the global economy over the past decades, the number of studies that have systematically investigated the political origins of inward FDI policies remains small. With some important exceptions[8], a majority of the scholarship on FDI in the field of International Political

[7] The crisis is commonly called 'global' financial crisis; historiographically, this term may conceal the fact that the crisis originated strictly in advanced economies and that the repercussions were generally less dramatic in emerging markets

[8] Beth A. Simmons, Andrew T. Guzman, and Zachary Elkins, "Competing for Capital: The Diffusion of Bilateral Investment Treaties, 1960-2000," *International Oganization* 60, no. 4 (2006); Sonal S. Pandya, "Labor Markets and the Demand for Foreign Direct Investment," *International Organization* 64, no. 03

Economy (IPE) has focused on the supply side of FDI politics (that is, how changes in political variables affect levels of FDI inflows[9]) rather than the politics behind the demand for FDI in host economies. Nonetheless, taking into account a wider body of scholarly work that in addition to IPE also includes work undertaken in the fields of international economics, economic history and international business studies, we can identify at least four distinct existing hypotheses about the potential drivers of this change: (i) a process of learning, (ii) structural changes in the nature of FDI, (iii) shifts in political power, and (iv) the international competition for capital.

The first potential explanation for this observed change in attitudes and policies rests on the idea of a process of *learning* through which policymakers gradually came to recognize the economic benefits of FDI inflows. The argument, which is often made implicitly, seems intuitively compelling. However, the nature of the empirical evidence on the economic effects of inward FDI is much less clear than one might think. Although FDI inflows are generally believed to add capital and technology to a host economy, empirical research has suggested that these positive impacts may be

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(2010); *Trading Spaces: Foreign Direct Investment Regulation, 1970-2000* (New York: Cambridge University Press, 2014); "Democratization and Foreign Direct Investment Liberalization, 1970–2000," *International Studies Quarterly* 58, no. 3 (2014).

[9] Investigating questions such as how changes in political regime types or other political evolutions affect FDI inflows. For example: Nathan Jensen finds that countries with a democratic political regime attract more FDI than their authoritarian counterparts, see Nathan M. Jensen, "Democratic Governance and Multinational Corporations: Political Regimes and Inflows of Foreign Direct Investment," *International Organization* 57, no. 3 (2003); *Nation-States and the Multinational Corporation: A Political Economy of Foreign Direct Investment* (Princeton and Oxford: Princeton University Press, 2006). In contrast, Quan Li and Adam Resnick find that democratic institutions reduce FDI inflows once democratic institutions' positive effect through stronger property rights is accounted for, see Quan Li and Adam Resnick, "Reversal of Fortunes: Democratic Institutions and Foreign Direct Investment Inflows to Developing Countries," *International Oganization* 57, no. 1 (2003). Pablo Pinto finds that, ceteris paribus, left party governments attract higher levels of FDI than right-wing governments, see Pablo M. Pinto, *Partisan Investment in the Global Economy: Why the Left Loves Foreign Direct Investment and Fdi Loves the Left* (Cambridge: Cambridge University Press, 2013). Rachel Wellhausen finds that acts of expropriation by governments deters FDI inflows from MNCs of the same nationality, see Rachel L. Wellhausen, *The Shield of Nationality : When Governments Break Contracts with Foreign Firms* (Cambridge University Press, 2015).

partly undermined by other simultaneous dynamics. In particular, the positive effect on the capital stock may be reduced substantially by MNCs' tendency to raise large parts of their total investments in local capital markets[10] and the technological spillover effects may be smaller than expected because foreign investors have strong incentives to protect their know-how from domestic competitor firms. In any case, the findings of econometric studies assessing the economic impact of inward FDI are highly mixed. An authoritative review of the empirical research at the macro-level by Robert Lipsey[11] notes that there is no obvious consistent relation between the size of inward FDI stocks or flows and GDP growth[12]. Similarly, a meta-analysis of the findings of research undertaken at the micro-level by Klaus Meyer and Evis Sinani[13] shows that the evidence of the existence of positive spillover effects is ambiguous and seems to depend crucially on host economies' 'absorptive capacities'[14].

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[10] See Edward M. Graham and Paul R. Krugman, *Foreign Direct Investment in the United States* (Washington, DC: Institute for International Economics, 1989); Charles Poor Kindleberger, *American Business Abroad: Six Lectures on Direct Investment* (New Haven: Yale University Press, 1969).

[11] Robert Lipsey, "Home and Host Country Effects of Fdi," *NBER Working Paper Series* (2002). Particularly influential studies in this regard are E. Borenzstein, J. De Gregorio, and J-W. Lee, "How Does Foreign Direct Investment Affect Economic Growth," *Journal of International Economics* 45(1998); Maria Carkovic and Ross Levine, "Does Foreign Direct Investment Accelerate Economic Growth?," *Working Papers*(2002).

[12] It is interesting to note that albeit some countries pursuing an explicitly liberal FDI policy, e.g. Ireland or Singapore, grew rapidly in the late twentieth century, some of the other star performers, e.g. Japan, Korea or China more recently, adopted explicitly hostile approaches towards inward FDI.

[13] Klaus E. Meyer and Evis Sinani, "When and Where Does Foreign Direct Investment Generate Positive Spillovers? A Meta-Analysis," *Journal of International Business Studies* 40(2009).For example, Hanson finds that the evidence for the existence of spillovers is 'weak'. See Gordon H. Hanson, *Should Countries Promote Foreign Direct Investment?* , ed. Group of Twenty-Four (New York: United Nations, 2001). Blomstroem and Kokko find that spillovers are 'not automatic.' See Magnus Blomström and Ari Kokko, "Multinational Corporations and Spillovers," *Journal of Economic Surveys* 12, no. 3 (1998). Goerg and Greenaway even find net effects to often be negative. See Holger Goerg and David Greenaway, "Much Ado About Nothing? Do Domestic Firms Really Benefit from Foreign Direct Investment?," *The World Bank Research Observer* 19, no. 2 (2004). Finally, Javorcik (2009) finds that they are absent horizontally, but present vertically. Beata Smarzynska Javorcik, "Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers through Backward Linkages," *American Economic Review* 94, no. 3 (2004).

[14] Such as the 'policy environment', human capital or local financial markets. See V. Balasubramanyam, M. Salisu, and David Sapsford, "Foreign Direct Investment and Growth in Ep and Is Countries," *The Economic Journal* 106, no. 434 (1996); Borenzstein, De Gregorio, and Lee, "How Does

Generally, the empirical findings are somewhat more encouraging for advanced than for emerging and developing economies. Nonetheless, given the ambiguity of these findings and the absence of a clear change in trend over time, it seems rather unlikely that progress in economic knowledge played a major role in the unfolding of the observed events.

A second potential explanation, which is prominent in the international business literature, refers to potential structural transformations in the *nature* of FDI inflows. This aspect has at least three distinct relevant dimensions. Firstly, global FDI flows became increasingly *diversified in terms of their geographic origins* between the 1960s-70s and the 1990s-2000s. While US MNCs accounted for the bulk of FDI flows going to other advanced economies in the immediate post-war era, European as well as Japanese MNCs started to play an increasingly important role from the 1970s onwards. In developing economies, patterns of FDI inflows had historically been strongly associated to their colonial past, with large amounts of FDI typically coming from companies of the former metropolis. From the mid-1970s onwards these links became gradually less obvious as companies from across the developed world increasingly expanded their activities around the world, thereby possibly diluting interpretations of FDI inflows as incorporations of patterns of economic imperialism. A second dimension consists of the gradual changes in the *sectoral composition of FDI inflows*. While the political implications of the gradual shift from manufacturing to services FDI in advanced economies are less obvious, the decline in importance of

Foreign Direct Investment Affect Economic Growth; Laura Alfaro et al., "Fdi and Economic Growth: The Role of Local Financial Markets," ibid.64, no. 1 (2004); "Does Foreign Direct Investment Promote Growth? Exploring the Role of Financial Markets on Linkages," *Journal of Development Economics* 91, no. 2 (2010).

FDI in natural resources industries and the relative rise of manufacturing FDI in the developing world might plausibly have played a role[15]. Most importantly, the dynamics of manufacturing FDI are less likely to be perceived as 'exploitative' than investments by MNCs targeting the excavation of commodities. Finally, a third dimension, relatively more important for advanced economies, refers to perceived changes in the *quality of economic activities* associated with FDI inflows. Many scholars have argued that the organization of MNCs has changed fundamentally in the late twentieth century as they gradually transformed from centralized hierarchical command-and-control organizations into increasingly flexible and de-centralized knowledge-seeking networks[16]. As a result of these transformations, some of these scholars argue, MNCs that used to keep decision-making and R&D activities at the enterprise's centre in their home economy and only assigned lower-value adding activities to their subsidiaries abroad, now turned to delegating increasingly higher-value adding activities to their foreign affiliates. The existing research that assesses these questions empirically suggests that there is some truth to these claims, but that these transformations are less significant than one may assume: on the one hand, MNCs were not as centralized in the 1960s-70s as it is often

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[15] See Andrew Walter and Gautam Sen, *Analyzing the Global Political Economy* (Princeton and Oxford: Princeton University Press, 2009), 192.
[16] These developments are described particularly vividly in Robert B. Reich, *The Work of Nations: Preparing Ourselves for 21st Century Capitalism* (New York: Vintage Books, 1992).

assumed[17] and, on the other hand, they were rather more centralized in the 1990s-2000s than the portrayal of MNCs as globally integrated units suggests[18].

Although trends towards a gradually increasing role of R&D activities as a share of total FDI flows seem to be real, these constitute relatively small and marginal changes rather than a radical break with the past. As a whole, these hypotheses about changes in the nature of FDI flows thus do seem to be useful to understand the easing of government attitudes towards FDI. In the context of advanced economies, especially the diversification of FDI inflows away from the USA and incremental increases in high-value-adding FDI may indeed have played a role in these political developments. However, although they might constitute reasons for governments to adopt a more favourable stance towards inward FDI, the nature of these evolutions – which clearly refer to transformations in degree rather than in kind - seems to be far too moderate to explain the rather radical change in attitudes and policies.

Closer to the literature in political economy, interest group politics and their potential lock-in in international institutions are a third potential explanation to consider. In the developing world, FDI inflows are generally believed to increase demand for labour while bringing more competition for domestic business and capital owners[19]. Accordingly, applying a class-based model of interest group

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[17] See John Cantwell, "The Globalisation of Technology: What Remains of the Product Cycle Model?," *Cambridge Journal of Economics* 19, no. 1 (1995).
[18] See Alan M. Rugman, *The Regional Multinationals : Mnes and "Global" Strategic Management* (Cambridge, UK; New York: Cambridge University Press, 2005); Pankaj Ghemawat, *World 3.0: Global Prosperity and How to Achieve It* (Boston, MA: Harvard Business Review Press, 2011).
[19] Pinto, *Partisan Investment in the Global Economy: Why the Left Loves Foreign Direct Investment and Fdi Loves the Left*; Pandya, *Trading Spaces: Foreign Direct Investment Regulation, 1970-2000*.

politics, it has been shown that, all else equal, left party governments[20] and more democratic regimes[21] in the developing world tend to impose relatively fewer restrictions on FDI inflows. The distributional consequences of FDI inflows in advanced economies are less clear[22], however, and the argument of the political empowerment of labour groups in the late twentieth century as a cause of the liberalization of FDI policies seems chronologically less relevant in this context. Alternatively, an industry-based model of interest groups behaviour may provide a more compelling explanation. In particular, it seems plausible that the economic interests of key constituents in advanced democracies, especially those of home-based MNCs and financial investors, have become increasingly internationalized during the late twentieth century[23]. Although such developments would seemingly relate more directly to the facilitation of *outward* rather than inward FDI, they may still have incentivized business groups and capital owners with international interests - for example, due to reciprocity concerns - to lobby domestic governments to push for the creation of a liberal international investment regime more generally. Furthermore, there is fairly clear evidence that international institutions dominated

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[20] Pinto, *Partisan Investment in the Global Economy: Why the Left Loves Foreign Direct Investment and Fdi Loves the Left*.

[21] Pandya, "Democratization and Foreign Direct Investment Liberalization, 1970–2000."

[22] Although MNCs of course do create jobs in their affiliates in advanced economies, FDI to advanced economies is typically more technology-intensive (compared to the labour-intensive FDI in developing countries) and MNCs tend to have a higher import-propensity than local firms (which can lead to job losses in supplier industries); therefore the net effect of FDI on employment in the OECD context is unclear. Similarly, the effect of more FDI for domestic capital and business owners in advanced economies is also ambiguous: Advanced economies are typically part of globally integrated capital markets and, moreover, MNC affiliates in developed economies frequently raise capital locally. As a result, the net effect of more FDI on the domestic availability of capital is not clear. The effect of more FDI for business owners is industry-specific; although FDI may crowd out direct local competitors, it can also generate opportunities for local firms in supplier industries (e.g. professional services).

[23] See Jeffry Frieden, "Invested Interests: The Politics of National Economic Policies in a World of Global Finance," *International Oganization* 45, no. 4 (1991).

by the governments of large advanced economies indeed did play an important role in the global process of liberalization[24]. Yet, although such interest group dynamics may certainly have played a role, they seem insufficient to explain the shift in FDI policy on their own. On the one hand, the actual importance of business group lobbying in these processes is not clear. In fact, the most detailed study to date in these regards, finding hardly any evidence that business groups actively sought to influence EU or national-level policymakers on issues of international investment policy, summarized the role of business groups as "uninformed, unorganized and uninterested"[25]. This strongly suggests that policymakers' preference for a liberal investment regime stems at least partly from other - including ideational - sources rather than pure interest group lobbying. On the other hand, although international institutions certainly did play a role in pushing national governments to remove restrictions on FDI inflows[26], there is no evidence – at least in the OECD context[27] - that they coerced nation-sates to actively *attract* and *promote* inward investments.

Finally, a prominent explanation for the liberalization of FDI policies emerging from the International Relations literature revolves around dynamics of international

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[24] In the world of advanced economies, the European Commission (EC), the OECD as well preferential trade agreements such as NAFTA played crucial roles in these regards. At the same time, the World Bank, IMF as well as the signing of bilateral investment treaties (BITs) fulfilled a similar function in the developing world.

[25] See Johann Robert Basedow, "The European Union's International Investment Policy: Explaining Intensifying Member State Cooperation in International Investment Regulation" (The London School of Economics, 2014), 20-21. For similar evidence in trade policy, see Cornelia Woll, *Firm Interests: How Governments Shape Business Lobbying on Global Trade* (Ithaca: Cornell University Press, 2008).

[26] See Beth A. Simmons, "Bargaining over Bits, Arbitrating Awards: The Regime for Protection and Promotion of International Investment," *World Politics* 66, no. 1 (2014).

[27] In the developing world, the World Bank and various NGOs have encouraged countries to create IPAs and have frequently supported such initiatives financially. Yet, such 'carrots' were largely absent in advanced economies.

competition for scarce capital[28]. The main argument of these studies is that in a world with an increasingly transnationally integrated capital market, national governments frequently have no other option than to offer ever more attractive conditions for capital owners to restrain capital from moving elsewhere. The empirical evidence that such dynamics matter is fairly strong. There is some qualitative evidence that policymakers carefully observe the policies peer countries adopt[29] and at least two sophisticated statistical analyses[30] have shown that the likelihood that a government signs a BIT or DTT with a third country increases when countries with a similar economic profile do so. The competition for capital hypothesis thus provides an important and highly plausible explanation for the 'bidding wars'-dynamics observed in the diffusion of FDI-attraction policies in the 1990s and 2000s[31]. But it is less able to explain the timing of these dynamics. Crucially, the competition for capital hypothesis alone seemingly struggles to explain why these dynamics only became salient in the 1990s and 2000s and not before[32]. An important reason for this pattern, the present investigation suggests,

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[28] See Susan Strange, John Stopford, and John S. Henley, *Rival States, Rival Firms: Competition for World Market Shares*, ed. Steve Smith, Cambridge Studies in International Relations: 18 (Cambridge, UK 1991); Charles Oman, *Policy Competition for Foreign Direct Investment: A Study of Competition among Governments to Attract Fdi*, ed. Development Centre of the Organisation for Economic Co-Operation and Development (OECD) (Paris: OECD, 2000); Simmons, Guzman, and Elkins, "Competing for Capital: The Diffusion of Bilateral Investment Treaties, 1960-2000; Fabian Barthel and Eric Neumayer, "Competing for Scarce Foreign Capital: Spatial Dependence in the Diffusion of Double Taxation Treaties," *International Studies Quarterly* 56, no. 4 (2012).
[29] For example, Strange, Stopford, and Henley, *Rival States, Rival Firms: Competition for World Market Shares*; Oman, *Policy Competition for Foreign Direct Investment: A Study of Competition among Governments to Attract Fdi*.
[30] Simmons, Guzman, and Elkins, "Competing for Capital: The Diffusion of Bilateral Investment Treaties, 1960-2000; Barthel and Neumayer, "Competing for Scarce Foreign Capital: Spatial Dependence in the Diffusion of Double Taxation Treaties."
[31] See Kenneth P. Thomas, *Competing for Capital* (Washington C.C.: Georgetown University Press, 2000); *Investment Incentives and the Global Competition for Capital* (London: Palgrave, 2010).
[32] At least theoretically, a reduction in the supply of capital could provide a structural explanation for the timing of the emergence of the CfC. In practice, however, the emergence of the 'race for FDI' coincides with a period during which global capital markets were in rapid expansion, and access to

may be that governments in the 1960s-70s were generally not very interested to attract foreign capital, which they considered primarily as a problem rather than an opportunity for national economic policy. In other words, I argue that for these competition dynamics to play out, foreign capital had to be defined as a desirable object in the first place.

As a whole, existing explanations focusing on structural transformations in the nature of FDI and the internationalization of economic interests of politically powerful groups thus provide several hypotheses that are useful to understand why governments have gradually removed restrictions on capital inflows, but they appear insufficient to make sense of the profundity of the observed transformations in attitudes and policy. I thus argue – and aim to demonstrate in the remainder of this thesis - that to fully grasp this key evolution at the heart of the global political economy, we need to consider not only the changes in the nature of FDI and the preferences towards them, but also the deeper and more radical changes in the *perceptions* of inward FDI, which changed the ways in which these preferences were constructed.

Overview of the thesis

The thesis is structured into four parts. The first part in *Chapter 1* elaborates the argument theoretically and situates it within broader debates in IPE and the social sciences. The chapter elaborates my key contention that in order to understand and

capital, for advanced as well as developing economies, was in principle more readily available than in previous decades.

make sense of the dramatic transformations in the predominant perceptions and interpretations of the economic meaning of FDI inflows, it is necessary to conceptualize inward FDI not simply as an objective material reality, but as a phenomenon that is deeply embedded in the social world. In particular, I focus on the important role of *economic narratives* as widely used intersubjectively constructed cognitive devices that simplify the complexity of economic systems in specific ways in order to enable individuals to interpret the economy and make sense of their role within it. I argue that they are important units of analysis for social scientists because they are not merely reflections of economic realities, but stories that make sense of it in a particular way and, by doing so, affect how individuals construct their economic interests. After reflecting upon the social mechanisms that lead to the emergence of new narratives, and the diffuse social processes through which they are constructed, spread and adopted, the second half of the theoretical chapter focuses on the content of the specific narratives that are at the focus of attention in the remainder of the thesis. Against the background of dominant scholarship in ideational political economy, much of which centres on a perceived 'shift' in economic thinking from Keynesianism to monetarism in the early 1980s, I argue for a more nuanced understanding of the evolution of predominant economic narratives in the post-war era and identify three stages in their development, which I deem to be particularly relevant to understand the empirical phenomenon under investigation: the 'statist' period of the 1960s-70s; the 'neoliberal' period in the 1980s; and the period of 'globalization' in the 1990s and early 2000s.

The remainder of the thesis is empirical and focuses on assessing how this evolution in narratives affected predominant social representations of inward FDI and, ultimately, policy outcomes. To do so, the investigation applies a mixed-methods research design that combines quantitative methods with the insights gained from qualitative historical analysis. The empirical investigation consists of three components. The first empirical element illustrates how this evolution in economic narratives affected the social understanding and interpretation of FDI inflows (Chapters 2 and 3). The second element performs two quantitative tests to assess the effect of this ideational evolution on individual attitudes and voting behaviour at large-n cross-national samples (Chapters 4 and 5). The third element analyses these developments in more depth through a comparative case study of the UK and France (Chapter 6).

Quantitative and qualitative methods each have distinct strengths and weaknesses[33]. Qualitative research is better able to take the complexities of observed social phenomena into account and it can typically draw from refined contextual knowledge in order to evaluate the operation of causal mechanisms; however, the external validity of qualitative findings is usually limited because the extent to which processes that are observed in one case are also present in other contexts can be difficult to assess (in short: the 'too many variables, not enough cases' problem). In contrast, quantitative research methods can be a powerful tool to evaluate the degrees of presence of specific dependent and independent variables of interest

[33] See Gary King, Robert O. Keohane, and Sidney Verba, *Designing Social Inquiry : Scientific Inference in Qualitative Research* (Princeton, N.J.: Princeton University Press, 1994); Henry E. Brady and David Collier, *Rethinking Social Inquiry : Diverse Tools, Shared Standards* (Lanham, MD: Rowman & Littlefield, 2004); Gary Goertz and James Mahoney, *A Tale of Two Cultures : Qualitative and Quantitative Research in the Social Sciences* (Princeton, N.J.: Princeton University Press, 2012).

across a large number of cases and they are well suited to adjudicate the strength and robustness of the relationship between these variables; instead, quantitative analyses frequently rely on proxy variables, findings are based on an analysis of patterns of degrees of joint presence or absence of causes and outcomes that generally gives little consideration to the causal mechanisms that connects the two, and they are less able to take deeper contextual dynamics into account (in short: the 'too many cases, not enough variables' problem). A combination of quantitative and qualitative methods *per se* does not necessarily solve either of these problems[34]. But it can at least increase the confidence in empirical findings through strategies of triangulation and cross-validation.

The first part of the empirical research presented in *Chapters 2 and 3* elaborates the evolution of the predominant social representation of inward FDI during the post-war era by sketching the key developments in relevant discourses and policy efforts in the six major advanced economies. The aims of the section are to distil the key characteristics in these developments while crudely assessing the observed similarities and differences across a set of fairly diverse 'mini-case-studies'. In particular, the analysis focuses on the United States, United Kingdom, France, Germany, Canada and Japan, which together account for a substantial share of total global FDI inflows. For the sake of conceptual clarity and in order to facilitate subsequent analyses, the chapters as a whole suggest differentiating between two contrasting ideal-typical epitomizations of predominant social representations of

[34] For potential problems, see, for example, Ingo Rohlfing, "What You See and What You Get: Pitfalls and Principles of Nested Analysis in Comparative Research," *Comparative Political Studies* 41, no. 11 (2008).

inward FDI. The 'old' image, predominant in the 1960s-70s (developed in Chapter 2), considered FDI inflows as potentially beneficial in the short-run, but harmful and anti-developmental in the long term. Although FDI inflows were considered as a valuable addition to a country's balance of payments and a potential source for the transfer of technological and managerial know-how, they were primarily seen as a threat to the development of home-grown industrial sectors, which could risk undermining the long-term prosperity of a national economy. As the chapter develops in more detail, in the 1960s and early 1970s (the period of *le défi américain*) these views appeared to be particularly pronounced in France, Canada and Japan; in comparison, policymakers' assessment of the effects of inward FDI appeared to be slightly more positive in the UK and Germany, but also the latter two uttered deep concerns and undertook serious efforts aimed at regulating FDI inflows. Not surprisingly perhaps, the USA - whose volumes of FDI outflows outstripped inflows by an order of magnitude at the time - was the only country among the six which refrained from undertaking any notable regulatory action. However, these patterns started being reversed in the aftermath of the oil-and-dollar double-shock of 1973 when European and Japanese MNCs began expanding more aggressively abroad. Throughout the 1970s and 1980s (which may analogously be described as the period of *le défi japonais*), FDI inflows turned into an increasingly controversial political issue on Capitol Hill, while governments in the three major European economies as well as in Canada had started to adopt more positive approaches towards foreign multinationals.

In the 1980s, dominant perceptions of inward FDI visibly changed and more positive interpretations of their meaning and significance spread first in Europe and after the end of the Cold War and the collapse of the Japanese boom economy also in the USA and, with some delay, in Japan. By the early 1990s, concerns about the negative long-term consequences of inward FDI seem to have largely evaporated. As the elaboration of the configuration of the 'new' social representation of inward FDI in *Chapter 3* describes, the rise of the globalization narrative profoundly changed the way FDI inflows were seen as they came to be viewed primarily as an 'opportunity' or economic 'solution' rather than a 'challenge' or 'problem'. Throughout the 1990s and early 2000s FDI inflows sky-rocketed to unprecedented levels in all six major economies in absolute as well as in relative terms, dwarfing the levels of foreign company ownership observed in previous decades. And yet, in sharp contrast to the political stirs inward FDI had caused in the 1960s-70s these dramatic developments, quite remarkably, barely received any political attention. Foreign ownership had become, it seems, by and large uncontroversial. Rather than as a sign of weakness of domestic industries, higher levels of foreign ownership even came to be interpreted as a sign of strength, as commentators described FDI inflows variedly as 'globalisation in its most potent form', the 'embodiment of a nation's competitiveness', global markets' 'seal of approval' or simply a reason for 'national pride'. Simultaneously, governmental FDI policy in all six major economies had decisively shifted its focus away from how to regulate or restrict inward FDI to how to attract and promote them. Politicians 'boasted' about increases in FDI inflows, and, tellingly, the most heated FDI policy debates now centred on how to avoid the escalation of dynamics of inter-state competition for the *attraction* of FDI rather than disagreements about whether or how to regulate them.

The second empirical part presents quantitative tests of two implications of this argument at large-n cross-national samples. The first test, presented in *Chapter 4*, examines the evolution of public opinion towards foreign companies through an analysis of the results of two waves of the *International Social Survey Programme*'s (ISSP) study of national identity. Building on earlier work in sociology and social psychology, which suggests that individuals' political-economic core beliefs are formed primarily during early adulthood, I hypothesize that, ceteris paribus, respondents who passed their prime period of socialization in the 1990s and early 2000s – that is, during a time-period when the globalization narrative was prominent – express more positive views of the role of inward FDI than older peers. Taking potential alternative age-related influences on individuals' attitudes towards inward FDI into account and controlling for other determinants of individual attitudes towards FDI established in previous literature, the combination of a multi-level probit analysis with a method of graphical visualization reveals strong evidence in support of this hypothesis and further analyses corroborate the claim that the observed generational difference in FDI attitudes is more strongly driven by the hypothesized mechanism of socialization and narrative change rather than potential alternative mechanisms such as structural changes in the nature of FDI.

Chapter 5 then shifts the focus on the political-electoral implications of this observed change in public sentiments towards inward FDI. In accordance with the observation that FDI inflows were a hotly debated political topic while the statist narrative was prominent in the 1960s-80s, but then became largely politically uncontroversial with the rise of the globalization narrative in the early 1990s, I analyse the association between relative increases in FDI inflows and voter support for incumbent governments at general elections held before and after 1990, using the currently most extensive dataset of its kind provided by Jeffrey Chwieroth and Andrew Walter[35]. Across a range of different specifications, I consistently find that relative increases in FDI inflows were associated with a small but consistent drop in voter support for incumbent governments in elections held before 1990, but that this negative association largely disappeared in elections held in the 1990s and 2000s, as predicted by the theoretical argument.

The final third component of the empirical research complements these statistical findings with a qualitative historical investigation of these dynamics in the United Kingdom (which serves as the 'primary case') and France (the contrasting 'shadow case'). The aims of the comparative case study design are to empirically 'ground' the ideational dynamics at the heart of this investigation and, at the same time, to contrast their trajectory in two distinct cultural-institutional environments. A comparison of the developments in the UK and France appears as particularly promising because although the two countries find themselves in structurally similar positions in the global political economy, the relative embrace of the narratives of statism and globalization in national intellectual environments has been rather different (that is, in methodological terms, the two cases exhibit unmistakable variation on the independent variable): while French policymakers strongly

[35] Jeffrey Chwieroth and Andrew Walter, "From Low to Great Expectations: Banking Crises and Partisan Survival over the Long Run," (2013).

embraced the statist narrative in words as well as actions in the 1960s-70s, their UK counterparts were more hesitant to adopt these interpretive frames. In contrast, in the 1990s and 2000s, when the globalization narrative had become highly salient at the transnational level, policy elites in the UK were among the most fervent advocates for the domestic adoption and implementation of the associated frames and policies, while the political discourse in France remained ambivalent. As a whole, by showing the very 'real' impact of the evolution of predominant economic narratives on policymakers' actions in two rather different cultural-institutional economic environments, the case study illustrates the political power and importance of transnational economic narratives. Albeit starting at rather different points in terms of the pre-existing cultural-institutional environment, the salience of the statist narrative in the 1960s-70s as well as the rise to prominence of the globalization narrative in the 1990s had a visible impact in France (a country with a famously proud statist legacy) as well as in the UK (the birthplace of liberal economic thought). At the same time, however, the analysis also illustrates that transnational economic narratives are not directly imposed upon nation-states and that national cultural-institutional environments constitute an important mediating force in the translation of transnationally formulated principles into domestic policies; although these dynamics cannot be assessed in all its nuances within this thesis project, they point to promising avenues for future research.

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As a whole, the research aims to show the value that the adoption of a broader theoretical perspective can add to our understanding of key dynamics in the global political economy. Although there seems to be little disagreement about the importance of economic ideas among practitioners, a significant part of political economy research stubbornly chooses to ignore such issues. By no means do I intend to suggest that economic ideas always matter or that they are 'more important' than interests. But, as I hope this thesis demonstrates, they can play a crucial role in defining those interests and the mere analytical acknowledgement of their existence may ultimately contribute to a richer, more nuanced and probably more realistic understanding of what actors in the global political economy want and why they want what they want.

PART I. THEORETICAL CONSIDERATIONS

Chapter 1 . HOW WE SEE WHAT WE SEE: ECONOMIC NARRATIVES AS REFLECTIONS AND DRIVERS OF CHANGE

"Globalization is not just a phenomenon. It is also a story.*"*

Angus Cameron and Ronen Palan[1]

"The basis of competitive strategies is always and necessarily an 'imagined' economy. For the real economy is so unstructured and complex in its operation that it cannot be an object of management, governance or guidance."

Bob Jessop[2]

Sitting in a café at a major port anywhere in the world, we can readily observe the international flow of goods. And the services provided by multinational corporations such as *Starbucks* or *McDonalds* can be touched, bought and tasted in towns and cities around the globe. In this sense, the world economy is a system that is of course very 'real' in a materialist sense of the word. Yet, at the same time, it is also an abstraction. Although we find ourselves continuously observing, buying, touching and tasting components of the world economy, we cannot actually see 'the world economy' as such. Based on our everyday shopping experiences, it seems safe to infer that a thing like the 'world economy' exists. But it is not possible to have a look at the entirety of actors, relationships and processes that constitute it, let alone

[1] Angus Cameron and Ronen Palan, *The Imagined Economies of Globalization* (London: SAGE Publications Ltd, 2004), 3.
[2] Bob Jessop, *The Future of the Capitalist State*, Capitalist State (Malden, MA: Polity, 2003), 119-20.

understand the actual operation of the system in all its complexities. And yet, despite this rather obvious epistemological truth[3], we still need to have some form of understanding - a working knowledge at least - of the unintelligibly complex processes that surround us, in order to talk about them, to situate ourselves in the world and to define our interests and preferences.

Just as scientists develop models that simplify the complex realities that they study in order to make them intelligible, so do we need stories – which may be conceptualized as more 'popular' versions of the scientists' models for the purposes of this thesis - that help us make sense of our everyday economic experiences and interactions. This is the primary function that *economic narratives* fulfil: they provide a deliberately *simplifying* account of the socio-economic macro-structure that surrounds us in order to allow us making (some) sense of our position and activity within this highly complex system. But, as such, economic narratives are not just 'innocent' reflections of reality. Even in cases that they do not willingly misconstrue economic reality, they necessarily emphasize certain aspects of economic phenomena and downplay others. *What* they emphasize and what they downplay, in turn, is consequential because it can shape how individuals who use them as interpretive frameworks perceive economic realities, what they consider as 'problems' and 'solutions' and how they define their interests. Ultimately, if the adoption of a narrative encourages individuals to behave according to the *script* that it provides, narratives can even turn out to be *self-fulfilling* to some extent[4].

[3] Echoing the 'allegory of the cave' formulated by Plato over two thousand years ago.
[4] On self-fulfilling prophecies in economics see Robert K. Merton, "The Self-Fulfilling Prophecy," *The Antioch Review* 8, no. 2 (1948); Michel Callon, "What Does It Mean to Say That Economics Is

This thesis examines such dynamics with regards to inward FDI. While a significant existing literature in IPE has analysed how the pursuit of political interests affect governments' FDI policies, the materialist ontology underlying much of this literature has meant that it has so far neglected the crucial question of how these interests are constructed. To start filling this gap, this thesis investigates the key evolutions in narratives about the world economy predominant in advanced industrial economies during the post-war period, and how these ideational transformations affected individuals' perception of inward FDI and the definition of their interests towards them. The remainder of this chapter, which aims to introduce and discuss the principal theoretical concepts underlying the subsequent empirical investigation, is organized in three parts. The first part situates the theoretical argument within the broader IPE literature through a brief discussion of the basic agreements and points of contention of rationalist and constructivist approaches. The second part then develops the theoretical argument in more depth through the theorization of some of the social mechanisms driving the emergence, formulation, spread and adoption of economic narratives. The third part extends this discussion empirically through a synthesis of the key evolutions in the economic narratives that are the driving force behind the empirical story to be unfolded in subsequent chapters: the transformations in predominant economic understandings from a narrative of economic sovereignty to free-marketism and, finally, globalization.

Performative?," *IDEAS Working Paper Series from RePEc* (2006); Donald A. MacKenzie, *An Engine, Not a Camera : How Financial Models Shape Markets* (Cambridge, Mass.: MIT Press, 2006); Donald A. MacKenzie, Fabian Muniesa, and Lucia Siu, *Do Economists Make Markets? : On the Performativity of Economics* (Princeton: Princeton University Press, 2007).

MATERIALIST AND SOCIAL UNDERSTANDINGS OF THE WORLD ECONOMY

The contemporaneous emergence of debates about the internationalization and increasing interdependence of the world economy and the discipline of IPE in the 1970s is no coincidence. 'Globalization' is the phenomenon at the very heart of the development of IPE as a scholarly discipline[5]. In this sense, the core questions that this thesis addresses lie right at the heart of IPE's substantive field of research. But at the same time, it treats the phenomenon of globalization from an ontological angle that is quite different from the approach that is preferred in a substantial part of the existing literature.

Dominant approaches in IPE – alternatively described as 'Open Economy Politics'[6] (OEP) by David Lake or the 'American School' by Benjamin Cohen[7] - treat globalization as a material structural phenomenon, more precisely formulated by Jeff Frieden and Ron Rogowski as the "exogenous easing of international exchange"[8]. Accordingly - as reviewed in the introduction to this thesis - mainstream studies of IPE treat FDI inflows, in many ways the epitome of globalization, as a physical capital inflow with consequences that are self-evident to individual agents. The

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[5] David Lake's influential writing on the discipline of IPE defines IPE as the field of enquiry which investigates essentially two questions: when and why countries allow globalization and how, in turn, globalization affects domestic politics. See David Lake, "Open Economy Politics: A Critical Review," *Rev Int Organ* 4, no. 3 (2009): 221. See also Robert O. Keohane and Helen V. Milner, *Internationalization and Domestic Politics*, Cambridge Studies in Comparative Politics (Cambridge, UK: Cambridge University Press, 1996).
[6] Lake, "Open Economy Politics: A Critical Review."
[7] Benjaminj Cohen, "The Transatlantic Divide: Why Are American and British Ipe So Different?," *Review of International Political Economy* 14, no. 2 (2007).
[8] Jeffry A. Frieden and Ronald Rogowski, "The Impact of the International Economy on National Policies: An Analytical Overview," in *Internationalization and Domestic Politics*, ed. Robert O. Keohane and Helen V. Milner (Cambridge: Cambridge University Press, 1996), 25.

preferences of the latter towards more or less inward FDI are characterized as being determined by individuals' interests, which are in turn understood as deriving from their objective position within the material economic structure[9].

The adoption of the materialist ontology that underlies these investigations is a theoretical choice that has analytical benefits, but also costs. It represents, essentially, a choice to focus on certain aspects of the world while bracketing out others in order to investigate the relationships among a few variables while treating most of the complexities of the real world as residuals. In other words, it is a choice to look at the world through lenses that filter the material factors in our surroundings, thereby enlightening one specific dimension of social reality, but excluding other factors that contemporaneously affect the social processes under investigation. Although such a research strategy can generate significant analytical pay-offs, its deliberate reductionism also means that it willingly excludes other social forces from its framework of analysis. The aim of this thesis thus is to look at the phenomenon of inward FDI through a different pair of lenses, which emphasize the *social* dimension of reality instead[10]. As such, it adopts a theoretical approach that is closely associated with perspectives that have come to be known as *constructivist* in the

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[9] David Lake describes the general approach as follows: "OEP begins with individuals, sectors, or factors of production as the unit of analysis and derives their interests over economic policy from each unit's position within the international economy. (…) That both the relevant political actors and their interests are defined by their production profile or position in the international economy is the 'hard core' of the … paradigm." Lake, "Open Economy Politics: A Critical Review," 225-27.

[10] I do, however, attempt to also acknowledge the important role of material factors. Unfortunately, many debates in IR and political science depict the relationship between ideas and interests, rationalist and constructivist approaches as mutually opposed. In contrast, this research conceptualizes them as being in a mutually constitutive relationship. As any moment of self-reflection about one's own individual behaviour almost certainly would reveal, our actions are continuously driven by both interests and ideas. In this sense, the interesting questions refer to how they interact and how they complement each other rather than somewhat sterile questions about which one is more important.

International Relations literature. The key tenets of this research tradition are briefly summarized in the following paragraphs.

Rationalism and Constructivism

Sociological perspectives have traditionally played an important role in European International Relations Theory[11]. In particular the writings of so-called 'English School' and 'French School' international theorists such as Martin Wight, Hedley Bull or Stanley Hoffmann show a strong interest in how shared world-views and intersubjective beliefs are shaping the constellation of the inter-state system[12]. American International Relations Theory, in contrast, from its early days adopted an explicitly materialist ontology and was more strongly influenced by economic rather than sociological theory. Although the work of the 'Stanford School' led by John Meyer as well as the writings by John Ruggie, Friedrich Kratochwil, Nicholas Onuf and many others made significant contributions to the creation of the research tradition nowadays known as 'constructivism'[13], dominant scholarship in the US in the 1970s and 1980s firmly centred on the debates between liberalism, realism and Marxism.

[11] See Peter J. Katzenstein, Robert O. Keohane, and Stephen D. Krasner, "'International Organization' and the Study of World Politics," *International Organization* 52, no. 4 (1998).
[12] Martin Wight, *Power Politics* (London: Royal Institute of International Affairs, 1946); Hedley Bull, *The Anarchical Society : A Study of Order in World Politics* (London: Macmillan, 1977); Stanley Hoffmann, *The State of War: Essays on the Theory and Practice of International Politics* (New York: Praeger, 1965).
[13] John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization* 36, no. 2 (1982); John W. Meyer and Brian Rowan, "Insititutionalized Organizations: Formal Structure as Myth and Ceremony," *American Journal of Sociology* 83, no. 2 (1977); Friedrich Kratochwil, "Of Systems, Boundaries, and Territoriality: An Inquiry into the Formation of the State System," *World Politics* 39, no. 1 (1986); Nicholas Greenwood Onuf, *World of Our Making : Rules and Rule in Social Theory and International Relations* (Columbia, S.C.: University of South Carolina Press, 1989).

The profound changes in the international system in the late 1980s and the difficulty of dominant approaches to explain these developments – a recurrent topic in this thesis that we will encounter again in other disguises -, however, opened a space for the emergence of a different type of international theorizing, which gives greater analytic attention to the role of ideas and common knowledge in world politics. Particularly influential in this regard was the work by scholars such as Martha Finnemore, Kathryn Sikkink, Peter Katzenstein and Alexander Wendt that led the groundwork for so-called constructivist IR theory in the US academy[14].

As Emanuel Adler argued in an influential article[15], constructivist IR theory represents a 'middle ground' in IR theory in the sense that it shares some of the ontological preferences of interpretivist and critical social theoretical approaches, but remains much closer to rationalist mainstream theories in terms of its interest in explanation and questions of causality. Despite this relative proximity, rationalist and constructivist approaches to world politics, however, differ markedly in their conceptualization of interests, as well as the importance that they assign to structural and agentic factors as drivers of policy change. The following two paragraphs elaborate these points of contention in some more detail. Finally, the third paragraph very briefly addresses questions about the (in)compatibility of a social ontology with a positivist epistemology.

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[14] Peter J. Katzenstein, *The Culture of National Security : Norms and Identity in World Politics* (New York: Columbia University Press, 1996); Martha Finnemore, *National Interests in International Society*, Cornell Studies in Political Economy (Ithaca and London: Cornell University Press, 1996); Alexander Wendt, *Social Theory of International Politics* (Cambridge University Press, 1999); Margaret E. Keck and Kathryn Sikkink, *Activists Beyond Borders* (Ithaca: Cornell University Press, 1998).

[15] Emanuel Adler, "Seizing the Middle Ground: Constructivism in World Politics," *European Journal of International Relations* 3(1997).

Interests and ideas. Individual interests are the principal building blocks of rationalist approaches, which essentially investigate the outcomes of strategic interactions among individuals pursuing their self-interest under specific institutional constraints. Despite their centrality in these frameworks, rationalist IR theory, however, typically does not problematize the origins or content of individuals' interests; instead, they are taken as exogenously given and as something that can be derived from an individual's position within the material structure. Although the majority of constructivist theories – or at least the ones that are being followed here - do not question the existence or importance of individual interests, they do contest the assumption that they are exogenously given. Rather than to deduct or impute actors' preferences, constructivist approaches suggest to *investigate* their construction by analysing the intersubjective origins of interests, such as shared beliefs that assign meaning to certain 'things'. In Mark Blyth's famous formulation, "structures do not come with an instruction sheet"[16]; that is, individuals do not necessarily know their exact position in the material structure nor is it always obvious to them how certain complex changes in the material environment could possibly affect their self-interest. To define their interests, individuals have to *interpret* their surroundings. And to do so, to assign meaning to material things, they rely on *cognitive frames*, which, in turn, are *social* structures that are constructed and shared *intersubjectively*.

Structure and agency. The nature of the relationships between structure and agency represents a longstanding debate in social theory. Although materialist or

[16] Mark Blyth, "Structures Do Not Come with an Instruction Sheet: Interests, Ideas, and Progress in Political Science," *Perspectives on Politics* 1, no. 4 (2003).

ideationalist ontologies are not in principle tied to privileging one or the other[17], rationalist explanatory frameworks have generally focused more on agency, while constructivist approaches, at least initially, emphasized structural elements. Although structure and agency both play a role in constructivist as well as rationalist approaches, the relationship among the two is conceptualized rather differently. While rationalist approaches generally understand the material structure as an external constraint, constructivists conceptualize the relationship between actors and structures as *mutually constitutive*. The OEP framework, for example, generally does not problematize the structural element in their theories[18]: structure is understood as the pre-existing material environment within which agents interact, but upon which the latter have no influence. It is taken as an exogenous fact. Early constructivist theories – and most explicitly Alexander Wendt in his seminal challenge to realist IR theory[19] – forcefully identified the shortcomings of these assumptions, arguing instead that the structure within which actors act is not just 'given', but partly constructed by them. They highlighted the fact that structural elements by themselves have no obvious *meaning* that is attached to them and that the way in which structural elements affect the behaviour of individuals always depends on how agents *interpret* them.

[17] For example, Marxism and structural dependency theory offer structural but materialist explanation of world politics while some constructivist approaches emphasize agency. Cf. Jeffrey M. Chwieroth and Timothy J. Sinclair, "How You Stand Depends on How We See: International Capital Mobility as Social Fact," *Review of International Political Economy* (2013): 461.
[18] And typically chooses to ignore macro-processes. See the critique by Thomas Oatley, "The Reductionist Gamble: Open Economy Politics in the Global Economy," *International Organization* 65, no. 2 (2011).
[19] Alexander Wendt, "Anarchy Is What States Make of It: The Social Construction of Power Politics," ibid.46(1992).

Due to their strong interest in the intersubjectivity of socially constructed structural forces, early constructivist approaches emphasized the constraining force of structures and downplayed the role of agents[20]. 'Second-generation' constructivist IR theory - although agreeing on the power of ideational factors and the logic of appropriateness in world politics - has challenged this emphasis and criticized these approaches for conveying a too passive image of the role of agents in processes of ideational change[21]. Although this vein of scholarship has persuasively shown how ideational entrepreneurs can strategically use social constructions to build political coalitions, it has been criticized for its apparent inability to explain where entrepreneurs' ideas come from and why audiences would buy their ideational 'products'[22]. Trying to avoid either of the pitfalls, this thesis adopts an understanding of the relationships between structures and agents that Hun Joon Kim and Jason Sharman describe as the 'middle-of-the-road' version of constructivism and which "begins with structure and then incorporates agency"[23].

Ontology and Epistemology. While rationalist approaches strongly and almost uniformly embrace the principles of positivism, ideational scholars are more divided on the question. In particular, proponents of critical and postmodern approaches to IR theory privilege interpretivist research methods, arguing that a social ontology is

[20] Meyer and Rowan, "Insititutionalized Organizations: Formal Structure as Myth and Ceremony; Wendt, *Social Theory of International Politics*.
[21] Keck and Sikkink, *Activists Beyond Borders*; Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (New York: Cambridge University Press, 2002); Vivien A. Schmidt, "Discursive Institutionalism: The Explanatory Power of Ideas and Discourse," *Annual Review of Political Science* 11, no. 1 (2008); Nicolas Jabko, *Playing the Market : A Political Strategy for Uniting Europe, 1985-2005* (Ithaca, N.Y.: Cornell University Press, 2006).
[22] Hun Joon Kim and Jason C. Sharman, "Accounts and Accountability: Corruption, Human Rights, and Individual Accountability Norms," *International Oganization* 68, no. 2 (2014): 425.
[23] Ibid.

irreconcilable with a positivist epistemology. In contrast, adopting the view of scientific realism, more conventional versions of constructivism explicitly address questions of causality, investigate causal mechanisms and self-consciously adopt positivist research methodologies to test their hypotheses[24]. Although I do acknowledge the meta-theoretical tensions that the combination of a social ontology with a positivist epistemology can give rise to, this thesis follows the latter tradition. It thus takes a *pragmatist* and problem-driven approach that privileges scientific accumulation over meta-theoretical harmony, as suggested by the proponents of *analytic eclecticism*[25].

Having situated some of the theoretical key aspects of the research traditions that this thesis builds on, the next section of this chapter focuses on developing in more depth the central theoretical concepts that underlie the empirical argument that follows.

ECONOMIC NARRATIVES AND SOCIAL REPRESENTATIONS: THE CONSTRUCTION OF COMMON SENSE

The theoretical concept at the centre of the argument of this thesis are *economic narratives*, which are understood as intersubjectively shared interpretive frames of

[24] See Wendt, *Social Theory of International Politics*; Katzenstein, Keohane, and Krasner, "'International Organization' and the Study of World Politics," 675; Henry Farrell and Martha Finnemore, "Ontology, Methodology, and Causation in the American School of International Political Economy," *Review of International Political Economy* 16, no. 1 (2009).
[25] Rudra Sil and Peter J. Katzenstein, *Beyond Pardigms: Analytic Eclecticism in the Study of World Politics* (New York: Palgrave Macmillan, 2010).

reference[26] that individuals use to make sense of the economic relationships and events that surround them[27]. As such, they are a relational concept that mediates structure and agency, allowing individuals to "(re)construct visions of the world that allow them to (re)situate themselves in the world"[28]. In other words, they are socially constructed and socially shared *stories* that provide plausible and commonsensical accounts of how the economy works. To do so, they typically define a set of desirable outcomes (ends) and hypothesize patterns of cause and effect that are suggestive of how to achieve these outcomes (means). In an iterative process described as *objectification,* these narratives give rise to specific *social representations* - "collective elaborations" defining the key characteristics of the social objects at the centre of the narrative's plot -, which are then re-inserted or *anchored* back into the narrative[29]. Economic narratives thus refer to the broader stories – such as the narratives of economic statism, free-marketism or globalization outlined below[30] – and social representations to the more specific objects within these stories – such as 'FDI' or 'multinational companies'. Analytically, economic narratives (and social

[26] See Erving Goffman, *Frame Analysis : An Essay on the Organization of Experience* (Cambridge, MA: Harvard University Press, 1974).

[27] For alternative conceptualizations of the term narratives in international relations, see Hidemi Suganami, "Agents, Structures, Narratives," *European journal of international relations* 5, no. 3 (1999); Kalypso Nicolaidis and Robert Howse, "'This Is My Eutopia...': Narrative as Power," *Journal of Common Market Studies* 40, no. 4 (2002); Ronald R. Krebs, *Narrative and the Making of Us National Security*, Narrative and the Making of United States National Security (Cambridge University Press, 2015).

[28] Schmidt, "Discursive Institutionalism: The Explanatory Power of Ideas and Discourse," 306.

[29] Serge Moscovici, *La Psychanalyse, Son Image Et Son Public*, 2nd ed. (Paris: Presses universitaires de France, 1976).

[30] The remainder of this thesis focuses on *predominant* economic narratives. It is worth emphasizing that economic narratives are never hegemonic and that almost always different types of narratives - very frequently mutually contradicting ones - co-exist. By stating that a narrative of 'economic sovereignty' was predominant in the 1960s, I thus by no means imply that no other narratives - including narratives that strongly contradict the core principles of what I identify as the narrative of 'economic sovereignty' - existed in the 1960s. But I claim that during that specific time-period the narrative of 'economic sovereignty' was on average more widespread in a specific place than alternative versions.

representations) are important units of analysis because they are not simply 'neutral' or 'objective' reflections of economic reality, but inherently biased "discursive simplifications"[31] of the latter, which affect how individuals perceive their roles and interests within the economic system and, as a result, how they behave.

The following two sections will clarify the concept of economic narratives by delineating its principal traits in comparison to other related theoretical concepts and reflect on the *audience* of the type of economic narratives that are investigated here. Subsequently, the chapter will turn to discuss the social mechanisms driving the creation and dissemination of new economic narratives.

Economic narratives and related concepts

This thesis focuses in particular on those narratives that describe, make sense and thereby construct seemingly 'natural' and taken for granted accounts of the relationships between states and markets and national economies and the world economy. As such, my conceptualization of economic narratives is similar to other theoretical constructs such as economic 'ideas'[32], 'paradigms'[33], or 'discourses'[34]. Yet, at the same time, it emphasizes some subtle differences to these alternative concepts. The term narratives is somewhat more specific than *ideas*. Although most if not all narratives could also classify as ideas, the reverse is not necessarily true. The

[31] Jessop, *The Future of the Capitalist State*.
[32] Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*.
[33] Peter A. Hall, *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton University Press, 1989); "Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain," *Comparative Politics* 25, no. 3 (1993).
[34] Schmidt, "Discursive Institutionalism: The Explanatory Power of Ideas and Discourse."

conceptualization of narratives that is used here refers specifically to those ideas that provide a more or less coherent and 'popular' story about the relationships between states and markets at the national and global scale. It refers to the type of ideas that provide an accessible account of world economic macro processes rather than more specific economic ideas (such as, for example, the introduction of a 'Tobin tax' or the distribution of 'helicopter money', which are also economic ideas, but too specific to be narratives). The concept of narrative is also closely related to the notion of *policy paradigms*. Yet, the former are explicitly less 'scientific' than the latter. Deriving from Thomas Kuhn's seminal work on the philosophy of science[35], paradigms refer primarily to the interpretive frameworks that are predominant among epistemic communities of scientists. Applied to the field of economic policy, they thus aptly capture the notion of the cognitive frameworks that are predominant in the economics discipline at any particular moment in time, such as 'Keynesianism' in the 1960s or 'monetarism' in the 1980s. Predominant economic narratives are typically closely related to such ideational evolutions among epistemic communities of academic economists, but they more aptly capture the reflection of the latter in more 'popular' (as opposed to scientific) understandings of how the economy works. As such, the notion of narratives is also closely related to the concept of *discourse*, and in particular to a Schmidtien[36] understanding of the latter. Yet, Vivien Schmidt's conceptualization emphasizes in particular the interactive nature of discourses - the process of *conveying* ideas - and is thereby more closely aligned to agent-centred versions of constructivism. At the same time, the theoretical approach that is

[35] Thomas S. Kuhn, *The Structure of Scientific Revolutions*, 2d ed., enl. ed. (Chicago: University of Chicago Press, 1970).
[36] Schmidt, "Discursive Institutionalism: The Explanatory Power of Ideas and Discourse."

preferred here is also different from Foucauldian approaches to International Relations in which discourse typically also plays a very prominent role, but in which it is used to refer to a distinct type of investigating ideational dynamics.

The audience of economic narratives

A great variety of narratives about a diversity of political topics constantly struggle for political attention. The narratives that are at the focus of attention here are those that shape the predominant understandings about the relationships between national economies and the world economy and the goals of national economic policy that derive from them. Rather obviously, not all narratives matter to everyone all the time. Most narratives speak to a certain *audience*. Who belongs to the audience and who doesn't arguably depends primarily on a narrative's substantive coverage. As such, the type of economic narratives that are at the focus of attention here are particularly relevant to individuals whose day-to-day activities focus on the analysis of international economic events, such as economic policymakers, financial analysts, journalists, international business leaders as well as some academics. Yet, although this type of social groups constitutes the *primary* audience of economic narratives that are examined here, they are by no means the exclusive one. Not only elites have a need for some sort of understanding of how the economy works. To some extent, everyone trying to make a living does. And unlike more scientific economic theories, the resonance of economic narratives among non-specialists is one of their key defining features. Trying to provide a corrective to the elite-centrism that is present in much of the constructivist IPE research agenda[37], the concept of economic narratives as it is used here thus refers to interpretive frameworks in which non-specialists and non-elites are involved in the process of creation – an aspect that is elaborated in the next section - as well as being an important part of the audience that they are targeted at.

The process of narrative creation and diffusion

To better understand the role of economic narratives in international affairs, it is essential to theorize the social mechanisms through which new narratives emerge, how they are formulated, how they spread and if, when and how they are adopted by actors. These four stages in the process of diffusion of economic narratives will be discussed in this section. Figure 1.1 gives an overview of the key points of analysis[38].

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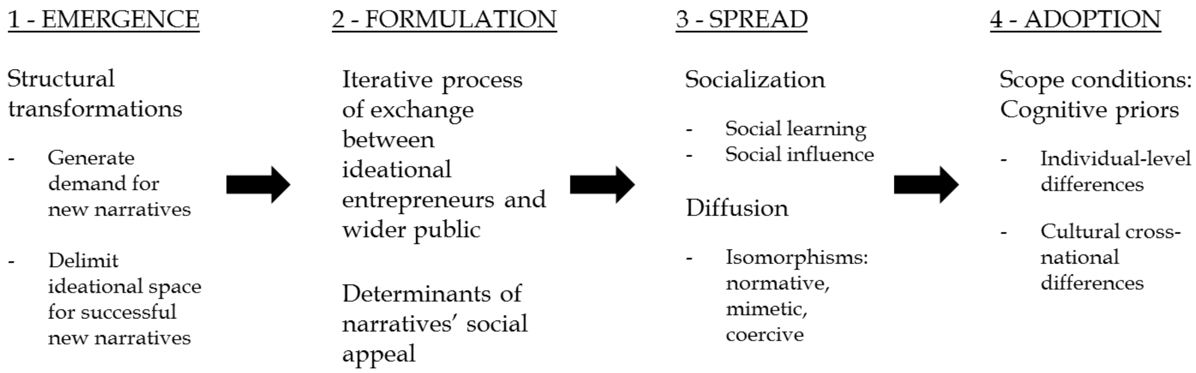
[37] For a critique, see Leonard Seabrooke, "The Everyday Social Sources of Economic Crises: From "Great Frustrations" to "Great Revelations" in Interwar Britain," *International Studies Quarterly* 51, no. 4 (2007); John M. Hobson and Leonard Seabrooke, *Everyday Politics of the World Economy* (Cambridge, UK; New York: Cambridge University Press, 2007).

[38] The theoretical account I offer follows in many respects the seminal exposition of the 'norm life cycle' by Martha Finnemore and Kathryn Sikkink, "International Norm Dynamics and Political Change," *International Oganization* 52, no. 4 (1998). But it differs from it in a number of respects: First, I offer an explanation that is more firmly embedded in structure and in which the space within which ideational entrepreneurs operate is more strictly delimited by structural features as well as cultural beliefs and preferences of non-elites. Rather than as 'creators' of issues (ibid., 897.), I understand the role of ideational entrepreneurs primarily as 'responders'. Second, I understand processes of narrative diffusion as primarily a *societal* phenomenon driven by diffuse social interactions rather than exchanges between states under the purposeful leadership of state leaders and norm entrepreneurs. Third, I conceptualize narrative change as a process of *layering* rather than replacement. And, lastly, I aim to distinguish more clearly between processes of 'socialization' and 'diffusion' and the relationships among them.

Figure 1.1. The process of narrative diffusion: overview



Two prior clarifications about the scope and ambition of this theoretical exercise merit mention. Firstly, cultural phenomena such as the rise and diffusion of economic narratives are processes in which multiple and diffuse mechanisms typically operate simultaneously[39]. Although I do attempt to describe the hypothetical social mechanisms at work as clearly as possible in the paragraphs that follow, it is important to acknowledge this complexity and to avoid temptations to be either over-specific in the identification of these mechanisms or over-ambitious in efforts to disentangle them from each other empirically. Secondly, the political function of economic narratives is not analogous to the function of actors' interests. Although I do interpret transformations in economic narratives as events that can have a causal impact on policy outcomes, they are not deterministic forces. Their importance as causal factors derives primarily from their role as *intermediary*

[39] Cf. Evan Schofer et al., "Sociological Institutionalism and World Society," in *The Wiley-Blackwell Companion to Political Sociology*, ed. Edwin Amenta, Kate Nash, and Alan Scott (Chichester, UK; Malden, MA: Wiley-Blackwell, 2012), 65.

variables (they are in this sense more similar to institutions): they do not directly determine outcomes, but they play an important role in channelling political action by helping individuals to construe their interests.

How do economic narratives emerge?

Attempting to explain the origins of norms and ideas, the constructivist literature differs in its emphasis of agency and structure. Agent-centred constructivist accounts highlight the centrality of ideational entrepreneurs in the process[40]. Yet, although these approaches are useful to explain the emergence of certain ideas in specific instances of political struggle, they are somewhat less satisfactory to explain the evolution of ideas and norms in a longer term macro-perspective, as structure-oriented theorists have pointed out. In particular, the observation that rather frequently similar ideas and narratives seem to emerge from geographically as well as socially dispersed sources at roughly the same time seems to be difficult to reconcile with agent-focused explanations about the origins of norms and ideas[41].

To explain the long-term evolution of the economic narratives that are traced in this project, I adopt a framework of *inhabited structures*[42] that borrows extensively from

[40] See Chwieroth and Sinclair, "How You Stand Depends on How We See: International Capital Mobility as Social Fact."
[41] See Kim and Sharman, "Accounts and Accountability: Corruption, Human Rights, and Individual Accountability Norms."
[42] This expression is an adaptation of the conceptualization of 'inhabited institutions' by Tim Hallett and Marc Ventresca, "Inhabited Institutions: Social Interactions and Organizational Forms in Gouldner's Patterns of Industrial Bureaucracy," *Theory and Society* 35, no. 2 (2006).

Kim and Sharman's 'middle-of-the-road' version of sociological institutionalism[43]. In essence, I pursue an approach in which structural evolutions are conceptualized as being temporally as well as ontologically *prior* to agency, while at the same time granting a somewhat greater role to ideational entrepreneurs (and their interactions with mass publics) than classical sociological institutionalist approaches. In other words, like Kim and Sharman[44], I conceptualize structural changes as the forces that indicate the *direction* of ideational change and ideational agency and story-telling as defining the particular *instantiations* thereof. Structural changes thus play an important role as *triggers* of narrative shifts[45] – in particular in cases in which they undermine key principles of previously predominant narratives, thereby generating a fertile ground for meaning-creation - as well as *delimiters* of the ideational space from which possible new narratives can be drawn from. In some sense, they thus indicate the timing and genre of new narratives, but not the specific plot thereof.

Formulation of narratives

The specific plot of new narratives is constructed in an interactive process of *theorization*[46] led by ideational entrepreneurs. The term *ideational entrepreneurs* refers

[43] Kim and Sharman, "Accounts and Accountability: Corruption, Human Rights, and Individual Accountability Norms."
[44] Ibid.
[45] An important implication of this intimate relationship between structural changes and economic narratives is that the appeal of economic narratives to the wider public is more strongly shaped by their *ability to make sense of change* rather than their ability to understand or explain continuity and stability. Conceivably, this may lead to a more general and systematic bias in the shape of predominant economic narratives towards accounts that neglect continuity and exaggerate the perceived degree of change.
[46] Understood as the "development and specification of abstract categories and the formulation of patterned relationships such as chains of cause and effect". Kim and Sharman, "Accounts and Accountability: Corruption, Human Rights, and Individual Accountability Norms," 430.

here to a vaguely discernible group of people who actively contribute to the formulation and dissemination of economic narratives. It includes journalists, think tanks, scholars and other opinion leaders in economic affairs[47]. Typically, ideational entrepreneurs thus belong to social groups that can be defined as intellectual elites. In contrast to other agent-centred constructivist accounts, I emphasize, however, the *social embeddedness* of these ideational entrepreneurs. They do not 'stand above' society; they are very much a part of it. In consequence, processes of economic narrative-creation are endogenous to deeper societal dynamics. Ideational entrepreneurs do not formulate new frameworks 'outside' of society and then supply their finished products to a public desperately waiting for someone to make sense of their economic environment. Instead, I conceptualize the formulation of narratives as an interactive and iterative process of exchange among ideational entrepreneurs and wider societal groups. As such, the formulation of new economic narratives is not a one-way street leading from clairvoyant ideational entrepreneurs to the rest of the world. Although (successful) ideational entrepreneurs undoubtedly do affect how people interpret economic events, I contend that the reverse is also true. Non-elites and non-ideational entrepreneurs do not simply accept any narrative that the former propose. They will only consider those that make sense and are useful to them. Such factors strictly delimit the intellectual space within which ideational entrepreneurs operate - a dynamic that can be usefully described as

[47] Analyzing the construction of the globalization narrative, Cameron and Palan note that "authors who are neither social scientists nor business theorists produce the vast majority of such accounts. By far the greater number of accounts of globalization are generated by journalists, policy analysts, policy-makers, management consultants and other commentators for whom the reality of globalization is simply a fact to be reported on, adapted to or coped with." Cameron and Palan, *The Imagined Economies of Globalization*, 34.

audience filtering -, and to succeed, ideational entrepreneurs who actively seek to provide narratives that resonate among the wider public will need to take the cultural and economic beliefs of the latter into account. Ideational entrepreneurs thus do not just supply ready-made interpretive frameworks to a passive public, but instead lead the efforts of narrative-construction in interaction with the wider public in an iterative process of trial and error.

Determinants of the social appeal of economic narratives

The fact that typically a great variety of ideational entrepreneurs propose a number of economic narratives that suggest conflicting interpretations of economic events naturally raises the question about the characteristics that make some narratives more successful than others. Due to the complexity of narrative bodies as well as the structural changes that they interpret it is not feasible to answer this question comprehensively in general terms. Nonetheless, it appears possible to at least identify some of the typical attributes of successful economic narratives. The core argument that emerges from the preceding discussion is that the resonance of economic narratives depends as much on its fit within the configuration of social relations at a specific point in time as it depends on the veracity and empirical accuracy of the account that it provides (that is, its *epistemic quality)*. This does not mean that narratives' substantive content is unimportant. Quite obviously, to be successful a narrative has to provide an explanation of economic events that directly relates to the observed events and offer an interpretation of the latter that is deemed to be *plausible* at the very least[48]. However, I argue that - given that a narrative meets a certain threshold of plausibility -, its success or failure depends primarily on how its content relates to deeper social dynamics rather than the veracity of the precise empirical or theoretical claims it makes.

Among a large variety of such social factors, two stand out in particular: a narrative's compatibility with the dominant *zeitgeist* or *world cultural beliefs*, and its *instrumental usefulness* for politically powerful groups. As socially constructed phenomena, economic narratives transmit not only neutral economic knowledge, but they are deeply imbued with cultural and normative meaning. Therefore, a narrative's appeal is not only determined by the economic considerations that it forwards, but also the cultural and normative values that it transmits, such as for example views about the socio-political legitimacy of nation-states, the rights and obligations of individuals, the desirability of different life-styles, etc.[49] At the same time, narratives are more likely to be actively diffused if the frames of reference that it provides are useful for politically powerful groups - who notably shape public debates through their influence on media and think tanks - in order to justify the

[48] In the words of Cameron and Palan, "[f]or a particular discourse to be persuasive, to play a powerful mediating role in human practice, it must correspond in some way to the active experience of participants: it must, in other words, be subject to what Freud would describe as a 'reality check'. The plausibility of a narrative relies on this reality check, though this does not mean that the narrative must correspond to some crude positivist or empiricist criteria of truth in order to be plausible." Ibid., 8-9. Or in other words: "The problem with the belief that social scientific rigour can bring us closer to the truth about globalization – can 'demistify' it – is that empirical rigour and theoretical sophistication do not necessarily seem to have anything to do with *plausibility*." Ibid., 29.
[49] In the words of Kim and Sharman, "cultural structure favours theorizations that are more congruent with the culture of modernity while tending to winnow out those that are further removed". Kim and Sharman, "Accounts and Accountability: Corruption, Human Rights, and Individual Accountability Norms," 431.

pursuit of their constructed interests[50]. Paraphrasing Robert Cox, it seems evident that narratives too 'are always for someone and for some purpose'[51].

Dynamics of socialization and the diffusion of economic narratives

Once that a specific narrative has been formulated, the question becomes how it can spread among social groups. To better understand the diffuse social processes underlying the spread of norms, ideas or narratives I propose to distinguish between two dimensions that are intimately related but analytically distinct: individuals' *internalization* of new norms and ideas and the social *diffusion* of the latter. Importantly, in practice these two processes happen simultaneously, feeding and reinforcing each other. However, for presentational reasons, I here distinguish between them conceptually. This section aims to discuss the operation of these mechanisms in general; the following section will reflect on some of the scope conditions that can reinforce or hinder the unfolding of these processes. To better understand the processes through which economic narratives spread and are adopted, I differentiate between *social learning* and *social influence* as the two main mechanisms of internalization, and three distinct types of *social isomorphisms* (normative, mimetic and coercive) as the principal mechanisms of diffusion. Again, the operation of these mechanisms overlaps in practice and they are better

[50] Hall, *The Political Power of Economic Ideas: Keynesianism across Nations*; Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*; Jabko, *Playing the Market : A Political Strategy for Uniting Europe, 1985-2005*.
[51] Robert Cox, "Social Forces, States and World Orders: Beyond International Theory," *Millennium* 10, no. 2 (1981).

understood as complementary rather than mutually exclusive forces. The distinctions are made here primarily for the sake of conceptualization.

The mechanism of *social learning*, also referred to as 'persuasion'[52] - or, less poetically, 'Type II internalization'[53] -, describes processes of socialization through which individuals adapt and internalize new systems of social beliefs due to their *epistemic usefulness*. In contrast to mechanisms of social influence, learning-based mechanisms of socialization are primarily cognitive or informational and less driven by concerns about social status. In contrast to more rationalist versions of learning, such as Bayesian updating[54], *social* learning refers to processes that are more strongly intersubjective and bounded rational rather than individualist and fully rational. It describes processes in which individuals are motivated to adopt new belief systems or interpretive frameworks because they help them make sense of their environment and their role within it through the (at least apparent) reduction of uncertainty that they provide. The two processes of social learning that are most relevant for the dissemination and internalization of economic narratives are formal as well as informal educational practices. *Formal education* refers to the social dissemination of concepts and interpretive frameworks through institutes of education, such as high school and university curricula. *Informal education* refers to less institutionalized practices of learning in which the media plays a crucial role as a common source and

[52] See Alastair Iain Johnston, "Treating International Institutions as Social Environments," *International Studies Quarterly* 4(2001).
[53] Jeffrey T. Checkel, "International Institutions and Socialization in Europe: Introduction and Framework," *International Organization* 59, no. 4 (2005).
[54] See Covadonga Meseguer, *Learning, Policy Making, and Market Reforms* (Cambridge: Cambridge University Press, 2009).

distributor of information and belief systems, as well as think tanks, international organizations or specialist knowledge firms such as management consultancies.

In contrast, mechanisms of *social influence* - Checkel's 'Type I internalization'[55] - refer to processes of socialization that are primarily driven by agents' concerns about social legitimacy. These dynamics are thus less strongly shaped by individuals' desire to stabilize their cognitive environments, but instead by agents' pursuit of social status. In short, they describe a variety of motivations that individuals may have to adopt a certain narrative even if they do not deem the latter to be particularly useful to make sense of their environment. Most prominent among them is their desire to signal their belonging to a specific social group. The logic of the operation of these mechanisms is well illustrated by Paul Krugman who described these dynamics as follows:

> "Endless rounds of meetings [and] speeches … occupy much of the time of the economic opinion leaders. Such interlocking social groupings tend at any given time to converge on a conventional wisdom, about economics among other things. People believe certain stories because everybody important believes them. Indeed, when a conventional wisdom is at its fullest strength, one's agreement with that conventional wisdom becomes almost a litmus test of one's suitability to be taken seriously"[56]

The mechanisms of social learning and social influence thus describe a variety of ways through which individuals can become socialized into new economic narratives or ideas once that they have been formulated. They are, however, not

[55] Checkel, "International Institutions and Socialization in Europe: Introduction and Framework."
[56] In Matthew Watson and Colin Hay, "The Discourse of Globalisation and the Logic of No Alternative: Rendering the Contingent Necessary in the Political Economy of New Labour," *Policy and Politics* 30, no. 4 (2004): 291.

sufficient to explain the diffusion of the latter among wider sections of societies. To better understand the commonly observed clustering of similar beliefs and practices among social groups, the sociological institutionalist literature proposes an understanding of diffusion processes that is based on three distinct types of social processes of homogenization, which are dubbed, respectively, as mimetic, normative and coercive isomorphism[57]. As Table 1.1 intends to illustrate, this typology of social isomorphisms is useful in making explicit specific aspects of processes of socialization that can lead to the diffusion of ideas, norms or narratives.

Table 1.1. Mechanisms of socialization and diffusion

		SOCIALIZATION *How do individuals and institutions internalize new narratives/ideas/norms?*	
		Social learning	Social influence
DIFFUSION *Why do individuals and institutions adopt same ideas as their peers?*	Mimetic isomorphism *Copying/ modelling on others*	Reliance on common source of information	Desire to 'look' similar to peers who are defined as successful
	Normative isomorphism *Self-regulation mechanisms in social groups*	Filtering of people with similar educational backgrounds	Show compliance with professional standards and norms
	Coercive isomorphism *Imposition of rules by outside authority*	Internalization of externally imposed rules of behaviour	Benchmarking and sanctioning

[57] DiMaggio and Powell define *isomorphism* as the "constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions". See Paul J. DiMaggio and Walter W. Powell, "The Iron Cage Revisited: Insititutional Isomorphism and Collective Rationality in Organizational Fields," *American Sociological Review* 48, no. 2 (1983): 149.

Mimetic isomorphism refers to individuals' or institutions' strategy to imitate their peers under conditions of uncertainty. Attempting to reach a goal, but unsure how to proceed, individuals and institutions frequently opt to copy the practices or discourses of those peers they deem having already achieved that goal. Thereby, by imitating the means in the hopes of achieving an end, ideas and practices can spread among peer groups who pursue the same goal. Dynamics of mimetic isomorphism can be found in processes of social learning, such as when individuals or institutions unsure about how to reach a vaguely defined goal (such as economic prosperity) start seeking advice or cognitive orientation from the same textbooks or consultants that their peers who appear to be successful in reaching that goal are using. Similar dynamics can also be observed in processes of social influence; for example, if individuals or institutions imitate the discourse or practices of their seemingly successful peers not primarily in order to learn from them, but to 'look' like them.

Normative isomorphism, also described as *professionalization*[58], describes situations of normative sanctioning through the establishment of specific social standards, which agents or individuals need to acquire in order to be recognized as a member of a professional or other type of social group. The nature of such standards or social conventions can be either formal (e.g. educational degrees or professional certificates) or informal (e.g. the adoption of specific habits or discourses). Again, such processes of homogenization can be present in instances of social learning or social influence. For example, the recruitment of staff for some organization may prioritize graduates of specific degree programs and thereby incentivize students to

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[58] Ibid; Kim and Sharman, "Accounts and Accountability: Corruption, Human Rights, and Individual Accountability Norms."

enrol in a specific course (such as an MBA program), which in turn will transmit a specific world-view and discourse among those students. Similarly, prospective as well as current members of a social group can feel pressures to adopt a certain discourse not because it helps them to make sense of their environment but merely to signal to their peers that they are willing to comply with the groups' norms (as described in Paul Krugman's quote above).

Lastly, c*oercive isomorphism* characterizes situations in which an external agent imposes rules of behaviour. In contrast to normative isomorphism - which refers primarily to dynamics of social groups' self-regulation -, it describes situations in which the source of regulation exists more or less independently from the social group which it aims to regulate. Outside authorities can influence how social groups behave by triggering dynamics of social learning or social influence. For example, it can lead to dynamics of social learning if the rules established by an outside authority are recognized and gradually internalized as the 'proper' way of doing things by the members of a targeted social group. It can also lead to dynamics of social influence, in particular if the outside authority resorts to tactics of benchmarking and naming and shaming in order to encourage members of a social group to comply with the imposed rules even if they are resistant to internalizing them[59].

[59] As recent research has started to uncover, such tactics have truly flourished in international affairs in recent years as a wide range of NGOs and IGOs started to use country rankings to publicly identify 'good' and 'bad' performers in a great variety of policy issues. Andre Broome and Joel Quirk, "The Politics of Numbers: The Normative Agendas of Global Benchmarking," 41, no. 5 (2015); Jack L. Snyder and Alexander Cooley, *Ranking the World : Grading States as a Tool of Global Governance* (Cambridge University Press, 2015); Judith G. Kelley and Beth A. Simmons, "Politics by Number: Indicators as Social Pressure in International Relations," *American Journal of Political Science* 59, no. 1

The spread of norms, narratives and policy ideas is thus a complex social process, in which dynamics of socialization or internalization interact with social isomorphic processes that reinforce each other: the internalization of new norms or ideas by some members of a social group positively affects the likelihood that they will also be adopted by their peers, while the likelihood of compliance is at the same time a function of how widespread the norm or idea is among relevant peers. Altogether, the mechanisms described constitute powerful social forces pushing towards convergence and homogenization once that a narrative has started to diffuse. The likelihood of adoption of new norms and ideas is, however, not identical for all social groups. The following section will very briefly outline some of these considerations.

Adoption: diversity in commonalities

The probability that the members of a specific social group adopt a new narrative depends primarily on the shared cognitive priors of the individuals constituting the group. In general terms, the adoption of new narratives is facilitated if the members of a social group either have no strong prior beliefs, or if their prior beliefs and constructed interests are compatible with the principles advocated by the newly emerging narrative. If, in contrast, prior beliefs conflict with key elements of the new narrative, three outcomes are possible: the new narrative can be rejected, the process of narrative adoption can be delayed and/or the narrative's figurative core can be

(2015). Two notable examples of such processes in the area examined here are the *World Economic Forum*'s Competitiveness Reports or the *World Bank*'s Ease of Doing Business Rankings.

adopted in modified form. As mentioned in the introduction, the focus of this thesis is primarily on the commonalities rather than differences in outcomes, which are only touched upon and not fully elaborated (neither empirically nor theoretically). Nonetheless, the obvious importance of such differences merits some more consideration.

Analysing the diffusion of global narratives across countries from a macro-social perspective, as it is the case here, two types of differences constitute relevant scope conditions for the social processes of narrative dissemination: individual-level attributes and cross-national cultural-institutional factors. At the individual level, three factors in particular are important in co-determining the speed and degree of adoption of economic narratives: individuals' age, constructed interests and more general socio-political and cultural attitudes. Age is important because, as research in social psychology has shown[60], younger people generally are more susceptible to the adoption of new beliefs because they have not yet internalized strong prior beliefs. Independently of age, individuals' constructed economic self-interests and socio-political and cultural attitudes are equally crucial mediating factors, which can facilitate the adoption of a new narrative if they are aligned with its principles (or hinder it otherwise). These differences are useful predictors not only of differences in the adoption of a narrative across social groups within a nation, but, to the extent that prior beliefs derive from intersubjective frameworks that are shared at the

[60] See Norval D. Glenn, "Aging and Conservatism," *The ANNALS of the American Academy of Political and Social Science* 415, no. 1 (1974); Duane F. Alwin, Ronald L. Cohen, and Theodore M. Newcomb, *The Bennington Women after Fifty Years* (Madison, Wisconsin: University of Wisconsin Press, 1991).

national level, also differences across countries[61]. For analyses of the diffusion of global norms and narratives such differences become particularly salient. As several studies have illustrated[62], to be implemented at the domestic level, global norms, narratives or policy prescriptions have to be 'translated'; that is, they have to be modified in such a way that the global narrative's figurative core can be seamlessly inserted into the domestic discursive order. Accordingly, national adoption processes can unfold relatively quickly and smoothly if the principles of an emerging global discourse or norm are aligned with traditional domestic beliefs in the same issue area, or prolonged and complicated in case that they are not.

To sum up: the aim of this section was to reflect more thoroughly on the social processes through which global ideas, norms or narratives emerge and circulate in an interdependent and culturally connected world. I have suggested that economic narratives are deeply embedded within the structural transformations that they imbue with meaning and that ideational entrepreneurs play an important role in the formation of new narratives, but that the space within which they act is quite strictly delimited by structural factors as well as the prior beliefs, practices and preferences of mass publics. I have emphasized that the epistemic quality of the narratives that

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[61] On how national cultural differences influence economic thinking, see Frank Dobbin, *Forging Industrial Policy: The United States, Britain, and France in the Railway Age* (Cambridge, UK: Cambridge University Press, 1994); Marion Fourcade, *Economists and Societies: Discipline and Profession in the United States, Britain, and France, 1890s to 1990s* (Princeton: Princeton University Press, 2009).
[62] See Hall, *The Political Power of Economic Ideas: Keynesianism across Nations*; Thomas Risse-Kappen, "Ideas Do Not Float Freely: Transnational Coalitions, Domestic Structures, and the End of the Cold War," *International Oganization* 48, no. 2 (1994); Amitav Acharya, "How Ideas Spread: Whose Norms Matter? Norm Localization and Institutional Change in Asian Regionalism," *International Organization* 58, no. 2 (2004).

ideational entrepreneurs propose is only one out of a number of other, predominantly social, factors determining an economic narrative's public appeal. I have discussed a variety of powerful mechanisms of social homogenization that can exert strong pressures towards convergence once that an economic narrative has been formulated and socially selected for diffusion. But I have also highlighted the importance of social groups' cognitive priors as scope conditions, which can either hinder or facilitate the unfolding of these mechanisms. Applying some of these concepts, the following section will elaborate the key transformations in the substantive content of predominant economic narratives in the post-war era. The remainder of the thesis will then demonstrate how these narrative evolutions led to a profound reconceptualization of the dominant social representation of inward FDI, and how the latter affected individual attitudes, voting behaviour and government policies through cross-national quantitative analyses as well as a comparative qualitative investigation of these issues in Britain and France.

FROM ECONOMIC STATISM TO FREE MARKETISM TO COMPETITIVENESS

A large majority of ideational scholarship in IPE has focused attention on the great 'shift' in economic ideology from Keynesianism to neoliberalism, which is typically situated in the decade of the 1980s[63]. The key insight offered by this literature is that the predominant ways of thinking about the role and responsibilities of the state as an economic actor changed substantially from before to after the 1980s; in particular, the argument goes, neoliberal ideology managed to move the locus of authority for economic coordination away from the state and towards markets (whose operation shall be as 'free' as possible from state intervention, according to the advocates of neoliberal ideas). The contribution of this literature to our understanding of economic policy has been fundamental and – as the daunting amount of scholarship in this vein attests - its key insight has been found to resonate throughout a great variety of areas of public policy. And to an important extent the argument is also mirrored in the empirical investigation that is presented in subsequent chapters. However, at the same time, the well-established account of the 'shift' in economic thinking from Keynesianism to neoliberalism is not entirely satisfactory and misses important nuances in the development of predominant social representations of inward FDI throughout the post-war era. The investigation unveils two theoretical shortcomings in dominant ideational political economy scholarship in particular: its overly reductionist dichotomous categorization of economic ideas and its nearly exclusive focus on the dimension of the responsibility for economic coordination

[63] See for example, Hall, *The Political Power of Economic Ideas: Keynesianism across Nations*; Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*; Jeffrey M. Chwieroth, *Capital Ideas: The Imf and the Rise of Financial Liberalization* (Princeton, Oxford: Princeton University Press, 2010).

between states and markets in its examination of the relationships of political-economic authority[64].

Firstly, under different disguises dominant constructivist political economy scholarship has portrayed the historical trajectory of economic ideas essentially as a battle between two well defined camps: Keynes vs. Hayek, statism vs. liberalism, states vs. markets. In consequence, the development of dominant ideologies has been depicted as a sort of 'winner-takes-all' contest marked by shifts and ruptures giving rise to 'jumps' in predominant economic thinking from one camp to the other. Although this dichotomous classification of economic ideas may be useful for analytic purposes, it also promotes a problematic understanding of the evolution of economic ideas[65]. Ideas don't 'shift', 'switch' or 'jump', they evolve. This distinction is not merely semantic, but underlines the gradualism of ideational change and, importantly, the fact that economic ideas, rather than replacing each other, are *layered* upon each other. That is, even if new economic ideas commonly challenge previously held beliefs, they at the same time borrow from and feed upon its precedents. For example, as I will elaborate in the following paragraphs, the neoliberal rhetoric, although challenging recipes of state intervention, at the same time borrowed heavily from the statist narrative. Most fundamentally, the very idea of a 'national economy' as an object to be freed from state intervention is itself a

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64 Although a systematic assessment of the significance of these shortcomings for other phenomena than inward FDI is beyond the scope of this thesis, these are general points that I believe to be pointing towards fruitful avenues for further research in the field of constructivist political economy.
65 The shortcomings of such an interpretation of the history of economic thought was most forcefully demonstrated in the aftermath of the Financial Crisis of 2007-08 when armies of analysts inside and outside of academia speculated about an imminent 'return to Keynesianism', as if nothing had changed since the 1930s (aside from Thatcher's and Reagan's capture of the public economic mind in the meantime).

construct that was legitimized by the statist narrative[66]. Similarly, it is erroneous to conceptualize the rise of the neoliberal narrative as some sort of 'end point' in the evolution of economic thinking. As I will elaborate below, the free markets narrative itself evolved substantially over time, giving rise to new narratives that at the same time build upon and challenge neoliberal ideas[67].

The second shortcoming of dominant ideational political economy scholarship, related to the first one, is its narrow focus on one particular ideational dimension, namely the relative distribution of authority between state and market institutions. Economic narratives are multi-faceted and multi-dimensional. Although the distribution of economic power between states and markets is certainly a key issue, it is not the only one. A different aspect of economic ideas - which previous ideational scholarship has given only scant attention to but plays a decisive role in the empirical story that is uncovered in the remainder of this thesis - is the distribution of authority between national and supranational market forces. As I will illustrate, predominant economic narratives have changed notably on this dimension *after* the supposed 'shift' to neoliberalism in the 1970s and 1980s[68].

To better track and understand the transformation of the meaning attributed to inward FDI from the 1960s to the 2000s, I thus propose a framework of ideational

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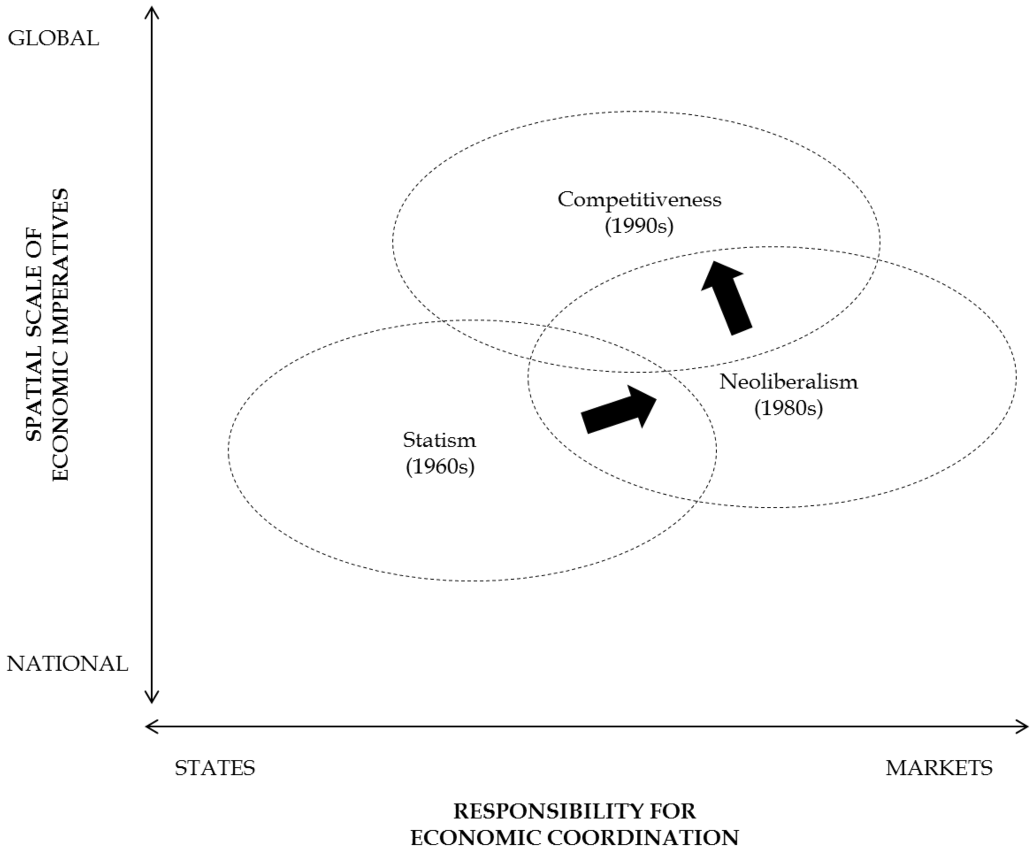
[66] See William Davies, *The Limits of Neoliberalism : Authority, Sovereignty and the Logic of Competition* (Los Angeles: SAGE, 2014), 5; Timothy Mitchell, "Fixing the Economy," *Cultural Studies* 12, no. 1 (1998); Tomo Suzuki, "The Epistemology of Macroeconomic Reality: The Keynesian Revolution from an Accounting Point of View," *Accounting, Organizations and Society* 28, no. 5 (2003).
[67] For a subtle treatment of the complex relationships between economic nationalism and neoliberalism, see Eric Helleiner and Andreas Pickel, *Economic Nationalism in a Globalizing World* (Ithaca, N.Y.: Cornell University Press, 2005).
[68] Some analysts interpret this movement as simply a part – or a confirmation - of the shift towards 'neoliberalism'. This, however, risks making the notion of 'neoliberalism' so broad that it becomes unclear what constitutes a departure, or at least a transformation, of the narrative's initial formulation.

evolution that is somewhat more dynamic and multi-dimensional than the dominant story of one shift from Keynesianism to neoliberalism. It is summarized graphically in Figure 1.2.

Figure 1.2. The evolution of dominant economic narratives, 1960s-2000s



It suggests that the key evolution in dominant economic narratives in the second half of the twentieth century unfolded in three stages. The narrative of economic statism - prevalent roughly from the 1930s to the early 1970s[69] - on the one hand emphasized the responsibility of the state in managing the coordination of economic expectations and regulating the operation of markets. On the other hand, it also underlined the

[69] See Cameron and Palan, *The Imagined Economies of Globalization*, 15.

national character of the economy. In the words of Cameron and Palan, national economic systems were understood as "servant[s] to the nation"[70] and market forces were clearly subordinated to the goals of the state[71]. The 'world economy', in consequence, was perceived as an "aggregate [of] discrete 'national' economies separated along political boundaries"[72]. In sum, dominant understandings of how economies work reflected a commitment to a deeper assumption that systems of authority and sovereignty were primarily organized on a national territorial scale[73]. The rise of the free-markets narrative advocated by monetarist or 'neoliberal' ideology in the late 1970s and early 1980s, in turn, was a direct attack on the first principle. Its advocates called for the state's withdrawal from economic management, which they argued should be operated by market mechanisms rather than state actors. However, free-marketism did not explicitly challenge the primacy of the national spatial scale. Well understood, the advocates of 'neoliberalism' were strongly opposed to any protectionist measures to shelter domestic producers and they clearly did embrace international economic competition and the free flow of global capital in this sense, yet the primary goal of their agenda was to create free markets at the *national* level. The taken-for-grantedness of the national scale only came to be challenged in a subsequent ideational transformation towards the end of the Cold War when a narrative of globalization and competitiveness rose to prominence among political elites and business leaders. The narrative argued, in a

[70] Ibid., 12.
[71] Ibid., 13.
[72] Ibid., 12.
[73] "It may be debated at length whether there was indeed ever a 'nation', let alone a 'national economy', that corresponded to the ideal of closure (we would argue that there was not), however, the imperative of the logic of the nation legitimized a particular political economy centred on the closure of the state." Ibid., 13.

nutshell, that the world economy was now globally integrated and that, accordingly, the priorities for 'national' economic policies increasingly derive from the forces of the global economic system rather than domestic (national) considerations. Underlying this evolution is a deeper reconceptualization of the idea of the state *per se*, which is "no longer based on territorial, cultural, social, linguistic, or any other form of identity associated with the territory or demography of the nation-state, but on particular types of economic participation" in the (supposedly) global market-place[74]. The narrative of globalization and national competitiveness thus synthesizes fundamental transformations in two deeper-lying principles on the relationship between states and markets, and nations and the world economy: that markets control the state rather than the reverse and that the imperatives of the global economy dominate the priorities for the national economic system.[75]

The two remaining sections of this chapter will elaborate these developments in some more detail, giving particular prominence to the rise of the globalization discourse, which lies at the core of the thesis's empirical argument.

From Narratives of Economic Statism to Free Markets

The rise of the narrative of economic statism is usually situated in the 1930s[76] and interpreted as a consequence of the experience of the Great Depression[77], the

[74] Ibid., 110.

[75] "The Fordist principle that the economic activity was subordinate to and controlled by the state has given way to the post-Fordist principle that the state is effectively controlled by (…) the needs of economic actors." Ibid., 116.

[76] Ibid; Jessop, *The Future of the Capitalist State*.

[77] Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*, 127.

political empowerment of working classes through their gradual enfranchisement[78] as well as the adoption of an informal social contract – first in the United States – facilitating the move towards a Fordist regime of mass production and mass consumption[79]. In essence, it represented a renunciation to the liberal internationalist economic order of the late nineteenth and early twentieth centuries and in particular of the gold standard, which subjected national economic policy priorities to the maintenance of exchange rate parities. The experiences with economic planning during the Second World War further reinforced these tendencies and finally led to the formal institutionalization of an international economic order based on the principles of economic statism at the Bretton Woods Conference in 1944. John Maynard Keynes who, as is well known, played an important role at the conference as the British lead negotiator, strongly argued for an international economic system, which gives precedence to national priorities over international obligations, in particular to allow the pursuit of close to full employment levels through policies of demand management, as he had advocated in his magnum opus *The General Theory of Employment, Interest and Money* (1931)[80].

A variety of factors arguably contributed to the resonance of such views: The war experiences and the nationalist political discourse had accentuated national identities and the political legitimacy of nation-states; politically empowered

[78] See Barry Eichengreen and Peter Temin, "The Gold Standard and the Great Depression," *Contemporary European History* 9, no. 2 (2000); Beth A. Simmons, *Who Adjusts? : Domestic Sources of Foreign Economic Policy During the Interwar Years* (Princeton, N.J.: Princeton University Press, 1994).
[79] Jessop, *The Future of the Capitalist State*.
[80] John Maynard Keynes, *The General Theory of Employment, Interest, and Money*, 11th ed. (London : New York: Macmillan St. Martin's, 1957 [1931]).

working classes were increasingly unwilling to bear the 'costs of adjustment'[81] and had adopted new social conventions and practices expressing increased expectations about the economic responsibilities of their governments[82]; at the same time, liberal economic elites had realized the political dangers of sticking with economic rules that are biased against the interests of working classes, which risk delegitimizing the principles of capitalism among these increasingly politically powerful constituents[83]; the war economy had fomented closer collaborations among domestic business elites and their national governments[84]; and governments, business leaders and working classes alike were keen to move towards a Fordist regime of mass production similar to the example set in the United States[85].

A key characteristic of the arrangement of 'embedded liberalism'[86] that was formally institutionalized at Bretton Woods is the precedence of national over international economic priorities. Both Keynes as well as his US counterpart Harry Dexter White were explicit in their views about the crucial importance of national economic policy autonomy. Rejecting the principles of the gold standard, Keynes famously stated to "let finance be primarily national", arguing that "the whole management of the domestic economy depends upon being free to have the appropriate rate of interest without reference to the rates prevailing elsewhere in the world."[87] White similarly

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[81] Simmons, *Who Adjusts? : Domestic Sources of Foreign Economic Policy During the Interwar Years*.
[82] Seabrooke, "The Everyday Social Sources of Economic Crises: From "Great Frustrations" to "Great Revelations" in Interwar Britain."
[83] Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*, 127.
[84] Peter A. Hall, *Governing the Economy : The Politics of State Intervention in Britain and France* (New York: Oxford University Press, 1986).
[85] Jessop, *The Future of the Capitalist State*.
[86] Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order."
[87] Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s* (Ithaca, NY: Cornell University Press, 1994), 34.

opined that capital flows should not be permitted to "operate against what the government deemed to be in the interests of any country"[88]. In accordance with such views, the Bretton Woods agreement explicitly allowed the use of restrictive economic practices – in particular the use of capital controls – in order to defend national policy autonomy[89], thereby instituting the international institutional foundations for a 'golden era' of economic statism, which lasted roughly from the 1950s to the 1970s and was characterized by the emergence of a relatively stable social order in advanced economies whose main features Bob Jessop characterized as those of a 'Keynesian National Welfare State'[90]. Arguably, the omnipresent external security threat in the context of the Cold War further strengthened the legitimacy of the nation-state and the importance assigned to national economic sovereignty. It appears fairly clear that the joint principles of the economic statism narrative - an actively intervening state and the precedence of national over international economic imperatives - were widely accepted in that period. The idea of a relatively closed Keynesian welfare state was adopted across the advanced economies. At the same time, narratives of 'economic nationalism' were widespread among developing countries as well as the UN institutions and accompanied by a "dramatic secular growth of state economic capabilities and a corresponding increase in the scope of public policy"[91] around the world. According to the narrative's principles, the world economy was not perceived as an integrated system, but as the aggregate of flows of

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88 Ibid., 35.
89 See Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order; Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*.
90 Jessop, *The Future of the Capitalist State*.
91 Charles Lipson, *Standing Guard: Protecting Foreign Capital in the Nineteenth and Twentieth Centuries* (Berkeley: University of California Press, 1985), 179.

economic exchange between separated units. As Bob Jessop observed, "[a] complex multiscalar field of economic relations was handled as if it were divided into a series of relatively closed national economies"[92]. Even among international economists, considering "global free trade as an instrument of '*national*' economic growth and welfare maximization"[93], such views were widespread and largely considered as unproblematic. Tellingly, one of the first major scholarly contributions to the study of FDI, the doctoral dissertation by Stephen Hymer (submitted in 1960), was entitled 'The International Operation of *National* Firms' [emphasis added][94]. Similarly, the product life-cycle theory developed by Raymond Vernon and Louis Wells, a highly influential explanation of the process of internationalization of multinational companies, strongly reflects a view of the world economy as being separated into several distinct national units following their own logics[95].

As subsequent chapters will elaborate in more detail, the portrayal of FDI inflows in this narrative was shaped by a highly sceptical view of the economic and political consequences of the presence of foreign multinational companies in an economy, fearing in particular that they will weaken or undermine national industries, which were considered as key actors in the pursuit of long-term prosperity.

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[92] Jessop, *The Future of the Capitalist State*.
[93] Cameron and Palan, *The Imagined Economies of Globalization*, 14. [emphasis added]
[94] Stephen Herbert Hymer, *The International Operations of National Firms: A Study of Direct Foreign Investment* (Cambridge (Massachusetts) and London: The MIT Press, 1976). Hymer's thesis was one of the first scholarly works in the field of economics that clearly draw a conceptual distinction between portfolio and FDI flows.
[95] Raymond Vernon and Louis T. Wells, "International Trade and International Investment in the Product Life Cycle," *Quarterly Journal of Economics* 81, no. 2 (1966). Vernon and Wells argue that innovating companies first sell their product only in their home market, expand abroad when profits at home decline because of increased competition, and finally cease production as foreign producers start exporting the product to its original home market at lower prices.

According to Bob Jessop, the decade of the 1960s, a period of relative economic prosperity and stability among advanced economies, marked "the highest stage of the national state form … as an economic, political and social power container"[96]. In the 1970s, the narrative of economic statism gradually came to be challenged. The productivity gains from reconstruction and the transition to economic regimes of mass production started to fade out, making it more costly for governments to pursue close to full employment levels. At the same time, large companies, struggling to maintain their profitability in their home markets, increasingly expanded internationally, thereby gradually undermining the informal social contract between national big businesses and working classes that had been paramount for the creation of national welfare state regimes[97]. Ultimately, these dynamics opened a space for the formulation of a different understanding of the economy. Although economic discontent was widespread, the ultimate shape of the emerging discourse was not clear *a priori*. In particular, socialist interpretations of the economic slug initially received a lot of popular support in a variety of countries, as David Harvey has noted[98]. Yet ultimately - as is well known - the dominant narrative to emerge from the crisis of the 1970s was a liberal narrative of free markets that forcefully challenged the notion of an interventionist state. Strongly appealing to the value of individual freedom[99], the proponents of the free markets narrative argued that state intervention was harmful for economic efficiency and,

[96] Jessop, *The Future of the Capitalist State*, 60.
[97] Reich, *The Work of Nations: Preparing Ourselves for 21st Century Capitalism*.
[98] David Harvey, *A Brief History of Neoliberalism* (New York: Oxford University Press, 2005).
[99] This normative element in the narrative is crucially important to understand the appeal of neoliberal ideas including for groups who were harmed by the economic policies that the narrative advocated. See ibid.

ultimately, economic prosperity. They advocated for a greater reliance on market mechanisms and the private sector rather than the state in coordinating economic expectations. More specifically, their narrative emphasized the beneficial economic effects that derive from a reduction of the economic role of the state through the privatization of state-owned companies and some public services, cuts in government spending to allow lowering tax rates and the stimulation of private sector activities through the removal of regulations (while at the same time strictly enforcing market competition). As such, the free market narrative represents clearly and explicitly a direct attack on the first principle of the economic statism narrative, the taken-for-granted responsibility of the state to actively manage the economy. Yet, its positioning towards the second principle, the precedence of the national over the international scale, is more ambivalent. The free markets narrative strongly favoured the removal of any restrictions on the cross-border flow of goods and capital[100], which were seen as forces enhancing economic efficiency by stimulating competition and ensuring an efficient allocation of capital[101]. Yet, at the same time these measures were only seen as a means to an end: the creation of free and efficient markets at the *national* level. In other words, the justification for the free flow of goods and capital was based on a view that they will contribute to improve the efficiency of national industries, but firms were still considered as *national* constructs. Although they firmly believed that the international economy should be as free as possible, it was still understood as a system constituted of several national subunits. As subsequent chapters will show, the portrayal of inward FDI in this

[100] Reagan abolished capital controls in 1974 and it was one of the first major policies adopted by Thatcher five years later.
[101] See discussion in Chwieroth, *Capital Ideas: The Imf and the Rise of Financial Liberalization*.

narrative was notably more favourable than it had been in the narrative of economic statism, but at the same time notably less enthusiastic than it was to be conceived of subsequently in the globalization and competitiveness narrative. In a nutshell, the free market narrative advocated a neutral policy towards FDI, which does not discriminate against foreign firms, yet at the same time it did not describe the attraction of FDI as being particularly desirable. As global trade and capital flows more generally, FDI was primarily seen as a means to an end (to make the national economy more efficient by stifling competition in domestic markets), but not an end in itself. As is well known, the free market narrative – advocated by monetarist economists, think tanks (e.g. the Mont Pelerin Society, the Institute of Economic Affairs or the Heritage Foundations) as well as popular media outlets[102] - was most prominently adopted by Reagan and Thatcher in the 1970s and promoted in continental Europe through the institutions of the European Commission. By the mid-1980s, most governments in advanced economies, including France, had adopted economic policies that were imbued with the principles of the free market narrative[103]. Yet, at the same time, the period during which this particular narrative was predominant was also relatively short. As I will argue in the following section, the abrupt end of the Cold War led to a subtle but important transformation in the predominant economic narrative with regards to the second principle of the economic statism narrative: the predominance of the national scale as a principle of economic organization.

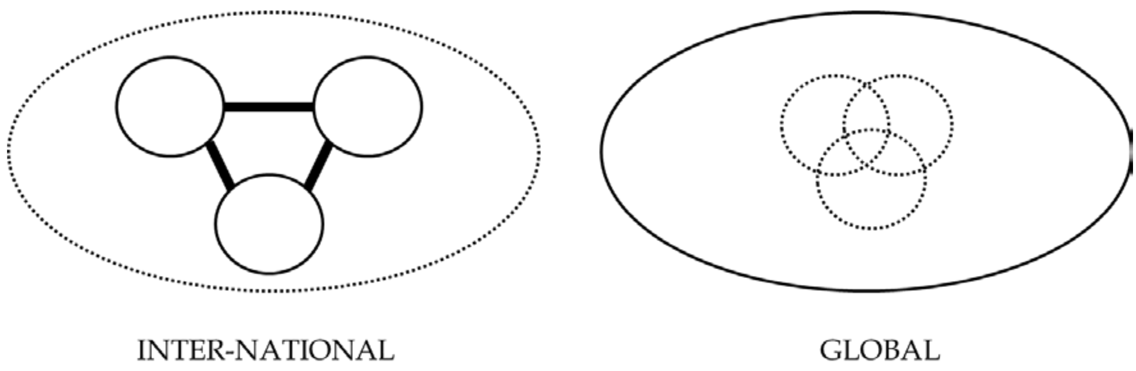
[102] See Harvey, *A Brief History of Neoliberalism*, 38.
[103] Ibid.

The Narrative of Globalization and National Competitiveness

Although the implications of the end of the Cold War take centre place in international security studies, it is generally seen as an event of only secondary importance in most studies of political economy, which put much greater emphasis on the rise of neoliberalism and the associated institutional transformations of the 1970s and 1980s in their historiography. This study suggests that this relative neglect is somewhat misguided. As I aim to show in the remainder of this thesis, the dramatic geopolitical changes and the Western triumphalism at the end of the 1980s – expressed most eloquently in Francis Fukuyama's *End of History* (1992)[104] – gave rise to a new powerful economic narrative that was rooted in business schools. It promoted a new vision of how the world economy works and applied the tools of management theory to develop a new ideal-type of the role of nation-states in the world economy. Most importantly, the emerging narrative of globalization and competitiveness started unravelling the national economy's "taken-for-grantedness as the primary object of economic management"[105]. Rather than as a network of independent national economic units, its advocates portrayed the world economy as a "singular emergent globalizing flow-based economy"[106]. This transformation from an internationalist to a globalist conceptualization, in which the global rather than the national is understood as the "natural scale of economic processes"[107] is illustrated schematically in Figure 1.3.

[104] Francis Fukuyama, *The End of History and the Last Man* (New York: Free Press, 1992).
[105] Jessop, *The Future of the Capitalist State*, 175.
[106] Ibid., 193.
[107] Ibid., 179.

Figure 1.3. The inter-national and the global view of the world economy and the economic relationships between states



Tore Fougner aptly describes the differences among the two as follows:

> "An 'inter-nationalist' conception implies a world economy characterised by relationships among relatively autonomous national economies, and within which the principal private agents (multinational corporations) and capital more generally are 'nationally embedded'. In contrast, a 'globalised' conception implies a world economy characterised by economic relationships that exist above and autonomously from national economies, and within which the principal private agents (transnational corporations) and capital more generally are 'globally footloose'"[108].

The implications of this transformation in the interpretation of the nature of the world economy for the perceived role of nation-states as economic actors are profound. Some early formulations of the globalization narrative stretched them to their extreme. For example, Kenichi Ohmae, proclaiming the "end of national

[108] Tore Fougner, "The State, International Competitiveness and Neoliberal Globalization: Is There a Future Beyond 'the Competition State'?," *Review of International Studies* 32(2006): 174.

interest"[109], argued that "national borders have disappeared and, along with them, the economic logic that made them useful lines of demarcation in the first place"[110]. Peter Drucker announced the emergence of 'post-sovereign states'[111]. And similar notions also resonate in Francis Fukuyama's bestseller, in which he claimed that "economic forces are now encouraging the breakdown of national barriers through the creation of a single, integrated world market"[112]. Such extreme views were, however, largely discarded soon after. Instead, more moderate (but no less consequential) formulations, which acknowledged the continuing importance of nation-states as economic units but re-framed them as being clearly subordinated to the forces of the global economy, became very popular and widely spread[113]. Two of the most persuasive early proponents of this perspective were Robert Reich[114] and Michael Porter[115].

Reich and Porter both argued that the integration of the global economy had fundamentally altered the rules of the game and that national economies could not anymore succeed in isolation of the global economy[116]; but they ascertained that national borders will continue to be important, or come to be even more important

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[109] Kenichi Ohmae, *The Borderless World: Power and Strategy in the Interlinked Economy* (New York: Harper Business, 1990), 182.
[110] Ibid., 172.
[111] Peter F. Drucker, *Post-Capitalist Society*, 1st ed. (New York: HarperBusiness, 1993).
[112] Fukuyama, *The End of History and the Last Man*, 275.
[113] For very useful overviews of various analytical lenses applied to the globalization debate, see David Held, *Global Transformations : Politics, Economics and Culture* (Stanford, CA: Stanford University Press, 1999); David Held and Mathias Koenig-Archibugi, *Taming Globalization : Frontiers of Governance* (Cambridge, UK and Malden, MA: Polity, 2003).
[114] Reich, *The Work of Nations: Preparing Ourselves for 21st Century Capitalism*.
[115] Michael E. Porter, *The Competitive Advantage of Nations*, Second ed. (Houndsmills, Basingstoke, and London: MacMillan Press Ltd, 1998(1990)).
[116] "We are living through a transformation that will rearrange the politics and economics of the coming century. There will be no *national* products or technologies, no national corporations, no national industries. There will no longer be national economies, at least as we have come to understand the concept." Reich, *The Work of Nations: Preparing Ourselves for 21st Century Capitalism*, 3.

than before[117]. Reich argued that even though MNCs are increasingly disconnected from the traditional logic of national sovereignty, the largely immobile workforce remains profoundly national. Accordingly, in his view, a national economic interest still exists, but its content has changed fundamentally: it is no longer equivalent to the interests of national corporations – which, Reich argues, have become 'nationality-less'[118] - , but now increasingly consists of the economic interests of the national workforce within the global economy[119]. Reasoning along similar lines, the very influential work of Michael Porter suggested that to foster the long-term prosperity of nations in the global economy, governments have to focus its economic policy on creating and sustaining an attractive 'business environment'. In this view, the goal of a state's economic activity thus becomes to provide the infrastructure and a highly skilled workforce that fosters the emergence of home-grown multinationals as well as the attraction of internationally competitive firms from abroad. Underlying such views is a profound and rather peculiar re-thinking of the concept of the nation-state as platforms of production for globally mobile companies; a notion that social theorists usefully conceptualized as 'competition states' (in contrast to 'welfare states')[120]. As they acknowledge, the globalization narrative's emphasis of competition *per se* is deeply ingrained in (neo)liberal political-economic

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[117] "While globalization of competition might appear to make the nation less important, instead it makes it more so." Porter, *The Competitive Advantage of Nations*, 19.
[118] Reich, *The Work of Nations: Preparing Ourselves for 21st Century Capitalism*, chapter 10.
[119] "The standard of living of Americans, as well as of the citizens of other nations, is coming to depend less on the success of the nation's core corporations and industries, or even something called the 'national economy', than it is on the worldwide demand for their skills and insights. All that will remain rooted within national borders are the people who comprise a nation. Each nation's primary assets will be its citizens' skills and insights." Ibid., 77.
[120] See Philip G. Cerny, "Paradoxes of the Competition State: The Dynamics of Political Globalization," *Government and Opposition* 32, no. 2 (1997); Jessop, *The Future of the Capitalist State*.

theory[121] and thus nothing 'new', but its application to nation-states (rather than national firms) as units in competition is both novel and consequential[122]. Mirroring Bill Clinton's insistence that "[e]ach nation is like a big corporation competing in the global marketplace"[123], William Davies stylized the significance of this ideational move as "[a] new vision of political authority (…), in which the nation (or city, region etc.) was comparable to a corporation, of which the political leader was the CEO and the citizens were employees". Emphasizing that "western economies could no longer compete internationally on price, but now needed to compete on quality, innovation and differentiation"[124], the globalization narrative depicts economic development not merely as a contest among national firms, but, significantly, as an economic contest among political systems and entire societies[125] for the key resources considered to drive innovation, such as leading scientists, artists and – crucially for the analysis of FDI - firms. Consistent with such depictions, FDI came to be increasingly framed as a source of innovation and prosperity and the levels of FDI inflows accordingly as an indicator of the attractiveness of a country's business environment or its economic success more generally.

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[121] See Davies, *The Limits of Neoliberalism : Authority, Sovereignty and the Logic of Competition*.
[122] The term 'competitiveness' had of course also been in use before the rise of the globalization narrative. Its meaning was different. While 'competitiveness' referred to the export competitiveness of national firms in narratives of economic statism and free marketism, it was now applied to the state as an economic actor, redefining it as "the capacity of a state to compete with other states for shares of so-called footloose investment capital", fostering a "culture of 'state salesmanship' … in the sense of selling the state as a location to globally footloose capital and firms". See Fougner, "The State, International Competitiveness and Neoliberal Globalization: Is There a Future Beyond 'the Competition State'?," 180.
[123] Paul Krugman, "Competitiveness: A Dangerous Obsession," *Foreign Affairs*, no. March/April (1994): 29.
[124] Davies, *The Limits of Neoliberalism : Authority, Sovereignty and the Logic of Competition*, 113.
[125] Which is reflected most obviously in the mushrooming of country rankings in the 1990s. See Broome and Quirk, "The Politics of Numbers: The Normative Agendas of Global Benchmarking; Snyder and Cooley, *Ranking the World : Grading States as a Tool of Global Governance*.

Importantly, this competitiveness narrative did not call for the withdrawal of the state from economic affairs. In contrast, in comparison to its neoliberal predecessors, it called for more rather than less state activity. It prescribed, however, a radically different type of state activity than the one usually associated with Keynesian policies. It demanded an active state in pursuit of what Phil Cerny, Georg Menz and Susanne Soederberg aptly describe as *pro-market regulation*[126]. That is, governments should not intervene in order to produce a particular economic outcome, but instead to establish and enforce the rules and to provide the resources for an attractive business environment, primarily through investments into infrastructure and education and the adoption of business-friendly legislation. Rather than to protect national citizens from the volatility of economic forces through demand management (as prescribed by Keynesian theory and advocated by the economic statism narrative), the globalization narrative thus defined the task of national governments as maximizing a national economy's attractiveness for globally mobile firms and capital through supply-side measures aimed at improving the business environment by enhancing conditions for economic entrepreneurialism and innovation.

An intriguing aspect of the remarkable popularity that this world-view has achieved is the fact that many of its core claims have been soundly rejected by

[126] Susanne Soederberg, Georg Menz, and Philip G. Cerny, *Internalizing Globalization : The Rise of Neoliberalism and the Decline of National Varieties of Capitalism* (Basingstoke, UK; New York: Palgrave Macmillan, 2005), 17.

empirical analyses[127]. In-depth investigations of the degree of integration of global markets over longer time periods have shown that events in the late twentieth century are more usefully understood as an *internationalizing trend* rather than a rupture or radical break with the past[128]. At the same time, the operations of supposedly globally mobile firms have been found to remain strongly biased towards their home economies[129], etc. More generally, a great variety of economic, political, social and financial indicators suggest that the world economy is far less 'globalized' than the globalization narrative would make one believe[130]. This mismatch between the popularity of the globalization narrative as a framework to understand the world economy and the inaccuracy of its empirical core claims hints to several factors that contribute to the appeal of economic narratives other than their ability to provide an accurate description of reality, which merit some discussion.

In terms of its content, the narrative proposes a theory of *change* rather than stability. As discussed, ideational evolutions are frequently triggered by the increased uncertainty about the future course of events that structural changes can induce. As a result, a narrative's ability to make sense of these changes is crucial. This was certainly one strength of the globalization narrative, which provided a "clear-sighted view of the global competitive landscape that

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[127] See, for example, Paul Hirst and Grahame Thompson, *Globalization in Question: The International Economy and the Possibilities of Governance*, Second edition ed. (Malden, MA: Polity Press, 1999).For a useful review and contextualization of this literature, see Colin Hay and David Marsh, *Demystifying Globalization* (Basingstoke : New York: Macmillan St. Martin's Press, 2000).
[128] See Hirst and Thompson, *Globalization in Question: The International Economy and the Possibilities of Governance*; Jeffry A. Frieden, *Global Capitalism : Its Fall and Rise in the Twentieth Century*, 1st ed. (New York: Norton, 2006).
[129] See Rugman, *The Regional Multinationals : Mnes and "Global" Strategic Management*.
[130] See Ghemawat, *World 3.0: Global Prosperity and How to Achieve It*.

regulated the uncertainty and anxiety of leaders in all sectors"[131]. Although the empirical bases for its claims were doubtful, it presented an account of changes that was deemed to be plausible with seemingly great confidence. At the same time, it offered a rather peculiar mix of liberal and nationalist economic theories[132] that was attractive to individuals as it managed to rescue deeper-lying nationalist sentiments into the 'global age'. The appeal to nationalist feelings, in turn, proofed useful for politicians in order to legitimize their political-economic actions, while its emphasis on international competition was vague enough so as to serve as a potential justification for economic and social policies of all political colours. Right-leaning political or business leaders referred to the globalization narrative to argue in favour of the need to pursue market-friendly policies, while left-leaning elites used it to demand more public investments into education or infrastructure[133].

In terms of its carriers, the narrative was primarily diffused via business schools, management consultancies and think tanks. Interestingly, the globalization narrative provides an 'economic theory' that was, at least initially, forcefully rejected by mainstream economists who despised it for its 'nationalist' or 'mercantilist' underpinnings, describing the idea of national competitiveness as "meaningless" and "dangerous"[134]. As discussed, the globalization narrative is much more strongly rooted in management theory rather than economics and was advocated primarily by business school scholars rather than economists. Its

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[131] Davies, *The Limits of Neoliberalism : Authority, Sovereignty and the Logic of Competition*, 113.
[132] Cf. Helleiner and Pickel, *Economic Nationalism in a Globalizing World*.
[133] See David Sousa, "Converging on Competitiveness: Garbage Cans and the New Global Economy," *Environment and planning C* 20, no. 1 (2002).
[134] Krugman, "Competitiveness: A Dangerous Obsession."

ultimate success in becoming one of the dominant economic world-views despite its rejection by mainstream economists is interesting on its own and calls for a somewhat more differentiated analysis of the much-advertised role of 'economists' as the common source of economic paradigms. It may even suggests that the strong focus on the influence of academic economists in the ideational political economy literature may be biased due to its relative neglect of other academic entrepreneurs, such as business and management scholars who plausibly hold some considerable competitive advantages as potential normative entrepreneurs vis-à-vis their peers in economics departments. Firstly, business-school-versions of international economics are grounded in empirics rather than theory and deliberately focus on the transmission of fundamental and rather common-sensical principles instead of abstract mathematical formulations. Business schools pride themselves on offering 'practical knowledge', which makes its economic discourse appealing for non-economists as well as the financial press that targets wide readerships. Secondly, in recent decades MBA programs have become hugely popular among elites across the world and far greater numbers of students enrol into business-related courses rather than pure economics[135], meaning that arguably a greater share of business and government elites have direct exposure to the business school discourse than cutting-edge economic theory. Thirdly, the ideas of business schools are transmitted widely to companies and governments around the world through management consulting firms that maintain strong connections to elite business schools. This means that

[135] See, for example, statistics from the UK in Patrick Dunleavy, Simon Bastow, and Jane Tinkler, *The Impact of the Social Sciences: How Academics and Their Research Make a Difference* (London: SAGE, 2014).

business and government elites' exposure to business school ideas and discourses is upheld throughout their professional careers. Fourthly, the business school discourse is also likely to be adopted within companies and thereby further transmitted to employees at all levels. In sum, business schools enjoy great social authority for the transmission of 'practical' economic knowledge and enjoy an exceptional reach to business and government elites (via MBA programs and management consulting firms) as well as the wider public (via media and within-firms discourse and workshops). These factors all contribute to explain the remarkable popularity of the globalization discourse.

Another crucial carrier of the globalization narrative were think tanks, and in particular the World Economic Forum (WEF). Founded in the 1970s by the executive business school *Centre d'Etudes Industrielle* in Geneva as an international conference aiming to bring together European business and government elites to discuss how to close the productivity gap with the USA it grew into one of the world's most respected think-tanks in the 1990s under the leadership of Klaus Schwab[136]. In particular, its annual meeting held in the alpine ski resort of Davos, Switzerland, enjoys great media attention. The WEF's embrace of the globalization narrative is significant for two related reasons. On the one hand, the evolution of the WEF into the preferred meeting-place of the world's powerful – or 'super-VIPs'[137] - attributes considerable social authority and symbolic power to the organization. In particular, the 'spirit of Davos' has

[136] Jean-Christophe Graz, "How Powerful Are Transnational Elite Clubs? The Social Myth of the World Economic Forum," *New Political Economy* 8, no. 3 (2003).
[137] Ibid.

come to be interpreted as the incorporation of the 'modern' in public policy and the desire to belong to this exclusive club of the powerful thus exerts strong pressures to adopt the discourse it promotes[138]. At the same time, the WEF as a think-tank has understood it extremely well to use its social authority in order to actively promote its world-view. Particularly important in this regard are the *Competitiveness Reports*[139], which since the early 1990s rank all countries of the world according to their level of 'competitiveness'. Despite the questionable methodology underlying these rankings[140], they enjoy great attention in the press and among economic and political elites, powerfully transmitting the idea that national economies are in competition with each other and that a nation's economic success is ultimately determined by its attractiveness to global capital[141]. Not infrequently, governments go as far as to define progress in these rankings as their official government policy[142], which constitutes a prime example of the dynamic of coercive isomorphism described above.

The transformations in the predominant economic narratives from the 1980s to the 1990s from a story about free markets to an account emphasizing globalization are thus significant because they advocated a rather different view of national economies. While the former portrayed them as objects to be liberated

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[138] Ibid; Davies, *The Limits of Neoliberalism : Authority, Sovereignty and the Logic of Competition*, 113.
[139] Written under the intellectual leadership of Michael Porter, Jeffrey Sachs and Xavier Sala-i-Martin.
[140] See Sanjaya Lall, "Competitiveness Indices and Developing Countries: An Economic Evaluation of the Global Competitiveness Report," *World Development* 29, no. 9 (2001).
[141] Tore Fougner, "Neoliberal Governance of States: The Role of Competitiveness Indexing and Country Benchmarking," *Millennium - Journal of International Studies* 37, no. 2 (2008): 315.
[142] See also Judith G. Kelley, Beth A. Simmons, and Rush Doshi, "The Power of Ranking? The Ease of Doing Buisness as Soft Power," in *International Studies Association 57th Annual Conference* (Atlanta, GA2016).

from government intervention, the latter described them as units to be turned into competitive locations for global capital. Despite the inaccuracy of many of the empirical claims that underlie the discourse, the framework - promoted by business schools, management consulting firms, think tanks and the media – was widely accepted by the mid-2000s when an analyst observed that "the necessity of competitiveness has been hammered home by governments, corporations, and the media to the point that it is taken for granted, a fact of life that is so obvious that we unthinkingly acquiesce to its dictates"[143].

CONCLUSIONS

The goals of this chapter were threefold: to situate this thesis theoretically; to unpack the concept of economic narratives and the social mechanisms through which they diffuse and affect policy outcomes; and outline the key developments in predominant economic narratives that are essential to understand the profound transformations in the social representation of inward FDI in economic policy discourses during the second half of the twentieth century. The following two chapters will describe the latter phenomenon in much more detail, focusing on developments in the six large advanced economies: the USA, the United Kingdom, Germany, France, Canada and Japan. The subsequent chapter then presents a series of quantitative tests that assess the impact of this ideational transformation on individual attitudes, voting and government policies in a cross-national perspective.

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143 In Fougner, "The State, International Competitiveness and Neoliberal Globalization: Is There a Future Beyond 'the Competition State'?," 165.

Lastly, the final chapter assesses these developments in the United Kingdom and France in more depth, using qualitative research methods.

The core message that this chapter aimed to convey - and which resonates throughout the remainder of this thesis - is that the ways in which we understand the world economy and the language that we use when we talk about it are based on powerful interpretive frameworks, which are not merely functional reflections of reality, but intersubjectively constructed belief systems that mirror not only 'real' material economic developments, but also a variety of cognitive, normative, emotional and political biases.

PART II. THE SOCIAL REPRESENTATIONS OF INWARD FDI

Chapter 2 . FDI AS A MEANS TO AN END: FROM *LE DÉFI AMÉRICAIN* TO THE JAPANESE CHALLENGE, 1960-1990

"[I]ndependence is not an ethical conception, but an economic necessity."

Jean-Jacques Servan-Schreiber[1]

The following two chapters describe the key developments in FDI policy and the configuration of predominant social representations of inward FDI in economically advanced recipient countries from the 1960s until 2007, with a focus on the USA, UK, Germany, France, Japan and Canada, which together account for a substantial part of the total global FDI in- and outflows during the period under consideration. Following the preceding discussion, the chapters will illustrate how the evolution in predominant economic narratives gave rise to distinct 'statist', 'neoliberal' and 'globalization'-inspired social representations of inward FDI. Because the 'neoliberal' period was relatively short - playing primarily the role of a transition period in the evolution of the social representation of inward FDI -, the discussion in these two chapters centers primarily on the social interpretations of inward FDI emerging from the 'statist' and 'globalization' narratives. In order to emphasize the difference among the two – and due to a lack of creativity –, I dub the statist version simply as the 'old' social representation, and the version emerging from the globalization narrative as the 'new' one. Accordingly, the present chapter focuses primarily on

[1] Jean-Jacques Servan-Schreiber, *The American Challenge* (New York: Atheneum, 1979), 38.

unpacking the configuration of the 'old' (statist) version and on presenting an overview of the key developments in inward FDI policy that accompanied it in the six major advanced economies; it also briefly discusses the social representation emerging from the 'neoliberal' narrative, but in less detail. The subsequent chapter will then focus on the 'new' social representation of inward FDI that emerged in the early 1990s.

The period of the 'old' perception of FDI in advanced economies that is at the focus of this chapter is characterized by governments, which were – to varying degrees - concerned about FDI inflows; economists and policymakers were aware of the potential benefits of inward FDI, but at the same time emphasized the risks of the latter for long-term industrial development. As a result of this ambivalent attitude, most governments somewhat reluctantly permitted the establishment of foreign companies in their jurisdictions, but attempted to complement them with policies targeted at minimizing the perceived economic risks[2]. In this sense - and in contrast to the period of the 'new' perception of FDI - governments always considered FDI inflows purely as a *means to an end* and never as an end in themselves. Governments put in place some regulations, but generally allowed the inflow of FDI because they believed that they bring jobs, technology, management skills and additional physical capital investments to an economy, with a net positive effect on a country's economic growth and balance of payments, at least in the short run. Yet at the same

[2] In comparison, most developing country governments showed a much stronger hostility towards MNCs until the 1980s, putting in place strict regulations on FDI inflows and sometimes resorting to the outright expropriation of foreign companies. Presumably, developing country governments' comparatively higher adversity to FDI is related to a combination of material structural economic differences, anti-colonial sentiments and Marxian-inspired economic ideologies. See also the brief discussion in these regards provided in the conclusion chapter.

time they worried about the foreign ownership of domestic industry because foreign owners may not act in the long-term 'national interest' and hollow out domestic industries. 'Economic sovereignty' was policymakers' implicit guiding principle, and, accordingly, the ultimate goal of FDI policy always remained to build strong *national* industries. Thus, policymakers wanted 'some' FDI, but not 'too much'[3]. As I will also discuss briefly, the neoliberal narrative gave rise to a less critical alternative, emphasizing the benefits of international competition as a force that can enhance the efficiency of national industries and therefore advocating for a 'neutral' FDI policy; at the same time, however, the neoliberal narrative remained notably less enthusiastic about the potential benefits of inward FDI than the globalization variant that came to succeed it and which is described in the next chapter.

To elaborate the configuration of the 'old' perception of FDI in more detail, the remainder of this chapter will first give a broad overview of the global patterns and characteristics of FDI flows in historical perspective and then develop a broad-brush political history of FDI inflows and their reception in the USA, UK, France, Germany, Japan and Canada between the early 1960s and the late 1980s. The historical overview suggests an interesting 'reversal of fortunes': During the period of unchallenged expansion of US MNCs overseas from 1960 to 1973, the US government was welcoming of FDI inflows, while governments in Europe, Japan and Canada were concerned about these developments and envisioned stronger regulations and restrictions on FDI inflows. In stark contrast, from the late 1970s, as

[3] Following this logic – which was to be completely overturned subsequently -, high (frequently called 'excessive') levels of FDI inflows were widely interpreted as a sign of structural *weaknesses* of a national economy.

European as well as the Canadian governments became gradually more relaxed about FDI inflows, US Congress became increasingly concerned about the inward investments from European and especially Japanese companies, enticing a prominent anti-FDI political discourse, which peaked in the mid-1980s.

BACKGROUND

Foreign direct investment (FDI) flows are, at the same time, a relatively old and a relatively recent phenomenon. In some sense, companies that simultaneously operate in several jurisdictions have existed since the political borders that made 'cross-border' economic transactions possible were established in the first place[4]. However, for the longest stretches of human mankind – and unlike today - the economic importance of such flows remained fairly modest. They started to grow during the long period of European colonization, when large-scale state-owned or state-sponsored trading companies adopted explicitly trans-national business models focused on the exploitation and transportation of raw materials and the building of physical infrastructure. During the nineteenth century (the period of the 'first global economy'[5]), driven by the process of industrialization and the rapid progress in communication and transport technologies, several European (primarily British and Dutch) and American companies began adopting international value

[4] Karl Moore and David Lewis (1999) identify the first 'multinationals' appearing in the Old Assyrian Kingdom around 2000 BC (in: Jones 2005:16). See Karl Moore and David Lewis, *Birth of the Multinational: 2000 Years of Ancient Business History from Ashur to Augustus* (Copenhagen: Copenhagen Business School, 1999). In the Middle Ages, family-owned merchant and banking buisnesses rank among the most remarkable cross-border enterprises.

[5] Jones, *Multinationals and Global Capitalism: From the Nineteenth to the Twenty-First Century*, 18.

chains also in the manufacturing sector[6]. And by 1914, trans-national production chains had become a fairly common phenomenon in a large number of manufacturing sectors[7]. Although it is difficult to estimate the volumes of FDI flows at the time, recent research by economic historians suggests that levels of international production had been fairly substantial at the time (with the value of the global FDI stock as a share of annual world GDP possibly reaching levels similar to those observed only again in the 1990s)[8]. From a political perspective, it is interesting to note that these large volumes of cross-border investments were largely considered as uncontroversial and didn't receive much attention before the outbreak of World War I. According to Geoffrey Jones, the period was characterized by a general "lack of concern about the nationality of ownership"[9]. Accordingly – mirroring the norms of free capital movement underlying the monetary system of the time -, there were very few, if any, barriers to the entry of foreign firms and host governments generally did not undertake any special efforts to monitor or control the activities of foreign companies[10]. The advent of the First World War undermined this generally liberal stance and the nationality of firms were for the first time clearly identified as

[6] See Mira Wilkins, *The Emergence of Multinational Enterprise : American Business Abroad from the Colonial Era to 1914* (Cambridge, MA: Harvard University Press, 1970). Firms such as the German-owned electrical company Siemens and US-owned Singer Sewing Machines, which established their first overseas plants in the 1850s and 1860s respectively, were among the first manufacturing multinationals in history. See Jones, *Multinationals and Global Capitalism: From the Nineteenth to the Twenty-First Century*, 20.
[7] For example chemicals, pharmaceuticals, electricals, machinery, motor cars, tires, branded food products or cigarettes. *Multinationals and Global Capitalism: From the Nineteenth to the Twenty-First Century*, 21.
[8] Possibly reaching as much as one third of global production (similar levels to today). See ibid.
[9] Ibid., 202.
[10] Ibid., 201.

a political issue when affiliates of 'enemy-owned' companies were systematically expropriated by warring parties[11].

These trends towards political nationalism further unfolded during the inter-war period as the fundaments of the 'first global economy' were gradually disintegrated. The widespread establishment of trade barriers and exchange controls significantly hindered international operations and the global FDI stock fell sharply during that time. Foreign ownership of companies remained a political issue throughout the inter-war period, especially so in the USA, which adopted relatively strict restrictions on inward FDI in several industries[12]. In contrast, most European governments - although showing an increasing awareness of foreign ownership as an issue - were more hesitant to implement formal restrictions on inward FDI. Even the Nazi government reportedly remained fairly tolerant of foreign firms operating in Germany[13] until the outbreak of World War II when, not surprisingly, the involved warring parties again resorted to expropriate assets held by enemy country companies.

Although FDI flows had played an important role in the global economy of the late nineteenth century, the volume as well as the nature of global FDI flows reached a quantitatively and qualitatively different scale in the period following World War II. The value of the global FDI stock rose dramatically throughout the post-war era; the great majority of FDI flows came to be increasingly concentrated among the 'Triad' of advanced economies constituted by North America, Europe and Japan (rather

[11] Ibid., 27.
[12] Ibid., 204.
[13] Ibid.

than North-South exchanges); and the focus of FDI activity moved away from the natural resources and utilities sectors to, first, manufacturing and then increasingly the services industries. These are the developments that are at the focus of attention of the remainder of this thesis.

Table 2.1 indicates the varying exposure of the six major OECD economies to FDI from 1960 until today by comparing the 5-year average FDI stocks (i.e. the accumulated flows) in absolute numbers (measured in billion current USD) as well as share of GDP[14]. Focusing in particular on the data before 1990, it suggest several interesting trends: First, while the FDI stock increased rapidly in all major advanced economies except Japan in the 1960s and early 1970s, the economic role of foreign companies relative to the size of the economy is shown to have been particularly great in Canada and, to a lesser extent, the UK. The FDI stock of Germany and France were slightly below the estimated world average, while it remained exceptionally low in Japan. Second, from the 1970s to the early 1990s, there was a movement towards some convergence among the major OECD economies: while Canada's FDI stock as a share of GDP decreased from over thirty to under twenty percent, the USA experienced very substantial inflows (even when measured

[14] Some general caveats related to historical FDI data should be borne in mind: different countries used different definitions of what a 'multinational' company is (e.g. are investments of a jointly-held Japanese-British company in the UK 'FDI'?), as well as different thresholds that distinguish FDI from portfolio investments (the US uses a 10% threshold, which has today become common practice; yet, historically, Germany only registered investments that acquired at least 20% of a German company as FDI, France used 25%, etc.). In addition, a very substantial part of FDI is financed through subsidiaries' retained earnings, the amount of which can be difficult to estimate. As a powerful illustration of these confusions and complications, *The Economist* reported in 1974 that US policymakers had "no clear idea about the exact amount of the inward FDI stock". See "Money Moves In," *The Economist*, 14 September 1974. Another critique of FDI data is that it is measured at book (rather than market) value, which can significantly bias global balance of payments estimates. See DeAnne S. Julius, *Global Companies and Public Policy: The Growing Challenge of Foreign Direct Investment* (London: Royal Institute of International Affairs, 1990).

relative to the sheer size of the economy). The UK remained the largest recipient of FDI among the major European economies, while the inward FDI stock of France overtook Germany's in relative terms (a not well known phenomenon that subsides until today). Third, Japan remained an inward FDI 'laggard' throughout the period, maintaining its FDI stock well below 1 per cent of GDP until the 1990s.

Table 2.1. International comparison of historical inward FDI stock (in billion current USD) and as a share of GDP (in percentages), five year averages

		1960-1964	1965-1969	1970-1974	1975-1979	1980-1984	1985-89	1990-1994	1995-1999	2000-2004	2005-2009	2010-2013
USA	FDI stock	7.6	10.1	17.5	40.9	129.4	346.4	685.8	1769	2507	3028.4	3947.5
	As a share of GDP	*1.3*	*1.2*	*1.3*	*1.9*	*3.7*	*6.8*	*10.4*	*19.9*	*22.5*	*21.4*	*24.6*
UK	FDI stock	5.4	8.7	15.9	30.1	54.4	105.6	190.2	280.8	582.4	1056.0	1351.8
	As a share of GDP	*7.1*	*8.1*	*9.8*	*10.2*	*11.1*	*15.1*	*18.1*	*20.4*	*33.5*	*42.2*	*55.2*
Germany	FDI stock	1.7	4.9	9.6	29.7	31.6	59.4	122.0	186.0	349.8	626.2	773.3
	As a share of GDP	*2.3*	*4.3*	*4.6*	*4.8*	*4.1*	*5.2*	*6.3*	*8.2*	*15.8*	*19.6*	*22.1*
France	FDI stock	NA	3.0	7.3	12.9	35.6	52.0	128.8	385.6	547.2	1037.4	1018.5
	As a share of GDP	*NA*	*2.5*	*2.7*	*2.3*	*6.1*	*6.3*	*9.8*	*25.9*	*33.4*	*42.0*	*38.1*
Japan	FDI stock	0.0	0.3	1.5	2.5	3.8	8.0	14.8	32.6	73.0	149.0	204.3
	As a share of GDP	*0.0*	*0.3*	*0.5*	*0.3*	*0.3*	*0.3*	*0.4*	*0.7*	*1.7*	*3.2*	*3.7*
Canada	FDI stock	15.4	26.4	32.7	48.8	62.4	93.4	113.2	159.6	277.2	496.6	475.4
	As a share of GDP	*34.2*	*33.9*	*27.6*	*22.2*	*19.1*	*18.6*	*18.9*	*22.2*	*30.3*	*32.5*	*35.0*
World	FDI stock	54.5	NA	166.0	301.9	786.0	1366	2460	4976	8719	15688	22563
	As a share of GDP	*4.0*	*NA*	*5.1*	*4.2*	*6.3*	*7.9*	*9.8*	*16.0*	*24.0*	*28.5*	*31.9*

SOURCES: Data before 1980: FDI data from Dunning and Cantwell (1987) and Safarian (1993)[15]; Historical exchange rates from Antweiler (2016)[16]; GDP from World Bank Database. All data from 1980 onwards from UNCTAD.

The global 'explosion' of FDI in the 1990s and 2000s, which dwarfs the significance of these earlier developments, will be analyzed in some more detail in the following chapter. The two remaining sections of this chapter will proceed to describe the

[15] John H. Dunning and John Cantwell, *Irm Directory of Statistics of International Investment and Production* (Basingstoke: Macmillan, 1987); A. E. Safarian, *Multinational Enterprise and Public Policy : A Study of the Industrial Countries* (Aldershot, Hants, England: E. Elgar, 1993).
[16] Werner Antweiler, "Pacific Exchange Rate Service: Foreign Currency Units Per 1 U.S. Dollar, 1948-2015," (2016).

reception of these ever-increasing flows of FDI among the major OECD economies in two periods: the rise of the US MNCs from the 1960s to the oil and dollar double-shock of 1973 and the rise of European and Japanese MNCs in the 1970s and 1980s until the exhaustion of the Japanese boom economy and the end of the Cold War in the early 1990s.

LE *DÉFI AMÉRICAIN*, 1960-1973

The USA emerged from World War II as the undisputed political, economic and technological superpower. While the war had destroyed not only productive capacities, but also essential economic institutions (e.g. price systems, the financial system, property rights etc.) in Europe[17], the domestic economy in the US was not only spared major direct destructions but further strengthened by the massive public investments (primarily into the defense industry) which reinforced the basis for the technological dominance of the US economy that persists until today[18]. As one consequence of these economic asymmetries, US MNCs, enjoying a technological, managerial and financial advantage in most industries, eagerly expanded their businesses overseas in the post-war era. From the late 1950s onwards, this phenomenon became increasingly controversial on several fronts: Even though the US public and government remained largely unconcerned about FDI inflows (which in any case were small) until the 1970s, US Treasury officials became increasingly worried about the effect of outward FDI on the US balance of payments. In Europe,

[17] Barry J. Eichengreen, *The European Economy since 1945: Coordinated Capitalism and Beyond* (Princeton: Princeton University Press, 2007), Chapter 3.
[18] Ibid.

the penetration of US MNCs raised alarm bells from the late 1950s onwards, arousing deep-seated concerns about the continent's 'technological dependence'. Similarly, Canadian politicians started worrying aloud about the 'truncation' of Canadian industry and questioned whether the economic reliance on US companies was really in the 'national interest'. At the same time, Japan, which had effectively closed its economy to FDI in the 1930s, strongly resisted the multilateral and bilateral pressures to remove its barriers to inward FDI, which it considered as a threat to indigenous industrial development. The remainder of this section will discuss these developments before 1973 in some more detail. The following section will then analyze the developments from the 1970s to 1992.

The USA: Beware What You Are Wishing For…

In the aftermath of the Second World War, US policymakers removed almost all restrictions on inward FDI, which had been implemented during the inter-war period[19]. The government encouraged both outward and inward FDI, even though, as a natural consequence of the nearly hegemonic position of US businesses in the world economy at the time, the former outstripped the latter by an order of magnitude.

Due to the steady erosion of the US current account throughout the 1950s and 1960s, however, Treasury officials started to consider the sizable outflows of FDI

[19] Jones, *Multinationals and Global Capitalism: From the Nineteenth to the Twenty-First Century*, 204.

increasingly as a "burden on the country's balance of payments"[20]. In consequence, in 1962 President Kennedy unveiled plans to decrease outward FDI and increase inward FDI. To reduce the incentives of US businesses to establish subsidiaries in Europe he announced further pushes to reduce the tariff barriers between the two continents (despite the insistence of the business community that "it is not the tariff barrier as much as nearness to a growing market which motivates most of that investment")[21]. In order to encourage European companies to invest in the USA, the Kennedy administration created an Office of International Investment, which was to inform European businesses about the investment opportunities in the US through the embassy network.[22] Unlike several state-level investment agencies, it was, however, not to provide any financial inducements[23]. Even though the administration mentioned the creation of employment and the availability of new products and production methods as (almost 'collateral') benefits that inward FDI can bring, the main motivation to encourage inward FDI was simple accounting: "Straightforward balance of payments considerations were, no doubt, mainly responsible for this desire [to attract FDI]."[24]

Yet, despite these initial efforts, FDI inflows remained relatively small and the US current account deficit deteriorated further in the context of the US' military involvement in Southeast Asia. In response, the Johnson administration implemented some restrictions to curb the outflow of FDI, the so-called "Voluntary Foreign Credit Restraints", in 1965. After the dollar confidence crisis in 1967, under

[20] "U.S. Companies Oppose Subsidiaries Tax," *Financial Times*, 30 January 1962.
[21] Ibid.
[22] "Attracting the Foreign Investor," *Financial Times*, 6 April 1962.
[23] Ibid.
[24] Ibid.

the great protest of the US business community, these restrictions were made mandatory[25]. As an unintended but very significant consequence of these constraints, US subsidiaries in Europe began to borrow increasingly from European banks, fuelling the emerging London-centered Eurodollar market[26].

Pressure on the US balance of payments finally subsided when the Nixon administration first suspended the dollar-gold convertibility in August 1971 and then substantially devalued the US dollar in February 1973. After the US balance of payments had turned back into surplus, the mandatory restrictions on outward FDI were abolished in February 1974[27]. The devaluation of the US dollar finally did lead to marked increases of FDI inflows, primarily from the UK, Germany and Japan. Initially, this "invasion, with the help it gave on the balance of payments, was welcomed by officials"[28], but soon thereafter it started to entice some worries and already in early 1974 "[t]hree congressional committees [were] looking into the possible disadvantages."[29]

Europe: 'A dilemma of historical significance'

The Second World War had left most European industries in shatters. The European economy severely lacked capital and had incurred a deep technological backlog to

[25] John Ellicott, "United States Controls on Foreign Direct Investment: The 1969 Program," *Law and Contemporary Problems* 34, no. 1 (1969).
[26] Paul Einzig, *The Euro-Dollar System : Practice and Theory of International Interest Rates*, 6th ed. ed. (London: Macmillan, 1977), 152ff. The Euro-Dollar System. Eurodollars are time deposits denominated in U.S. dollars at banks outside the jurisdiction (and thus financial regulation) of the United States. The first Eurodollars were issued in 1957.
[27] "Making It in the United States," *The Economist*, 2 February 1974.
[28] Ibid.
[29] Ibid.

the booming US economy. Therefore, European governments initially welcomed the increasing investments by US companies, which were widely considered to be "uncontroversial"[30] in the direct aftermath of the war. However, in the early 1960s several governments started to express their concerns about the 'economic invasion' of Europe by US multinationals. Most vocal were the French. While General De Gaulle had pursued a generally liberal FDI policy during his first mandate (1958-1962)[31], a conjecture of events involving the subsidiaries of US companies in France in 1962-63[32] notably shifted the discourse of public intellectuals and government officials. Maurice Duverger, professor of political science at Sorbonne University, expressing the general sentiment among the Parisian policy elites, wrote in a column published in *Le Monde* on 10 January 1963:

> "The USA already have many 'Trojan horses' amongst us and they don't stop sending more of them: such are their capital investments…Those who are receiving them don't feel mistrust; instead, they are welcoming them with open arms, as if they were a boon, entirely unconscious of the danger, which they present."[33]

Soon after, actions followed words: realizing that the rules of the European Economic Community would make any unilateral attempt to curb inward

[30] Rainer Hellmann, *Amerika Auf Dem Europamarkt: Us-Direktinvestitionen Im Gemeinsamen Markt* (Baden-Baden: Nomos Verlagsgesellschaft, 1966), 24. [original in German, translated by author]
[31] Ibid., 25.Hellmann 1966:25
[32] Three events in particular were commented on very critically by the French media: the sudden layoffs at *General Motors* and *Remington Rand*, the attempts by US canning factory *Libby McNeill* to influence French agricultural policy and *Chrysler*'s hostile takeover of the French carmaker *Simca*. See ibid., 26; Norman Graham, "Developed Countries and Multinational Corporations: Threat Perception and Policy Response in France and the United Kingdom," in *Host National Attitudes toward Multinational Corporations*, ed. John Fayerweather (New York: Praeger Publishers, 1982).
[33] In Hellmann, *Amerika Auf Dem Europamarkt: Us-Direktinvestitionen Im Gemeinsamen Markt*, 21.

investments self-defeating[34], then Finance Minister Valéry Giscard d'Estaing proposed to his EEC partners to establish regulations to limit foreign direct investment in the Common Market as a whole because "[i]t was not desirable that essential sectors of the Common Market economy should be dependent on external decisions"[35]. In September 1963, the government introduced new legislation, which subjected secondary offerings of French shares to foreign interests to special authorization[36] and a few month later the Finance Ministry intervened to block *General Electric*'s planned takeover of *Machines Bull* (later admitted under strict conditions)[37]. In February 1965, General De Gaulle uttered his now famous views that the US' 'exorbitant privilege'[38] to print the international reserve currency led to an excess supply of USD, artificially fueling the financial power of US MNCs and their ability to take over European companies, which he interpreted as "a kind of expropriation of one or another enterprise in certain countries."[39] In May 1965, French Industry Minister Michel Maurice-Bokanowski renewed the call for a Common Market Investment Policy and a pan-European industrial policy in order to face the competition of US companies. In the same address Maurice-Bokanowski developed a theory of 'good' and 'bad' FDI, announcing that "[t]he present policy of

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[34] A unilateral restriction on inward FDI could not stop the targeted foreign companies from setting up a subsidiary in another EEC member country and export their products from there without any restrictions. In the words of Servan-Schreiber: "A Common Market country that takes a more restrictive attitude than its partners toward American investment only helps its competitors as its own expense." Servan-Schreiber, *The American Challenge*, 47.
[35] "French Bid to Curb Foreign Investment in E.E.C.," *Financial Times*, 25 January 1963.
[36] "French Move to Restrict Foreign Take-Overs," *Financial Times*, 4 September 1963.
[37] Hellmann, *Amerika Auf Dem Europamarkt: Us-Direktinvestitionen Im Gemeinsamen Markt*.
[38] In fact, De Gaulle did not use this exact wording, even though he articulated the same idea. The term 'exorbitant privilege' was suggested by Giscard d'Estaing and has later been (mis-)attributed to De Gaulle. See Pierre-Olivier Gourinchas and Hélène Rey, "From World Banker to World Venture Capitalist: Us External Adjustment and the Exorbitant Privilege," *IDEAS Working Paper Series from RePEc* (2005).
[39] "The General Makes One Valid Point."

the Finance Ministry is that take-overs by foreign firms [i.e. the 'bad' FDI] will in future generally be forbidden, while the creation of new productive concerns with advanced technology [i.e. the 'good' FDI] is regarded more warmly"[40].

Even though France's EEC partners could not agree to implement formal limitations on US FDI inflows, many of them (from all political spectra) shared the French concerns about the 'excessive' inflows of US FDI to Europe. They resented in particular the phenomenon of hostile takeovers and the increasing competition in European capital markets from US subsidiaries due to the emergence of the Eurodollar market. British Prime Minister Harold Wilson warned of the danger of "industrial helotry"[41] in Europe and pronounced that the primary objective of Europe must be "to prevent the domination of our economy by the Americans"[42]. Hans Dichgans, MP of the German centre-right governing party CDU, stated that "[h]istory teaches us that in the long run a healthy economy must free itself from dependence on foreign capital and rely on its own resources. The United States itself furnishes the best example of this"[43]. Robert Marjolin, illustrious member of the European Commission, worried publically that Europe was becoming an importer of technology and an exporter of brains[44]. Similarly, an LSE economist claimed that "from the sole point of view of the implications for technology, working for a foreign

[40] "French Minister Calls for E.E.C. Investment Policy," *Financial Times*, 27 May 1965.
[41] "U.S. Industry and Progress - a Financial Times Survey: Signs of Slackening in Investment in Europe," *Financial Times*, 27 November 1967.
[42] In Servan-Schreiber, *The American Challenge*, 47.Particularly controversial was *Chrysler*'s takeover of the British carmaker *Rootes* in 1967. See Hodges, *Multinational Corporations and National Government : A Case Study of the United Kingdom's Experience, 1964-1970*.
[43] In Servan-Schreiber, *The American Challenge*, 45. The German government actively intervened when *Mobil Oil* tried to take over *Aral* in 1967, capping control at 28% and requiring the foreign stockholders to pass a resolution affirming that "they agree that the German identity of the firm shall be maintained" ibid., 48.
[44] "U.S. Industry and Progress - a Financial Times Survey: Signs of Slackening in Investment in Europe."

subsidiary is like working for its parent. Either way foreign interests are buying domestic ability to produce ideas. If it is bad for British technology when a scientist emigrates, it is bad when foreign subsidiaries hire, or retain, British scientists"[45]. UNICE, a leading European business lobby[46], published a report in which they uttered their concerns that American investments in Europe had become excessive, arguing that they have led to (i) difficulties for European companies to access European capital markets, (ii) labor shortages and rising wages, and (iii) a dangerous decrease of profit margins because US companies "failed to respect" [sic] the European cartel arrangements[47]. Even the famously liberal *Financial Times* called for regulatory action and industrial policies in order to face the competition from US MNCs in an editorial published on 8 February 1965[48].

It was in this context that the French journalist and progressive liberal politician Jean-Jacques Servan-Schreiber's essay *Le défi américain* (The American Challenge),

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[45] Max Steuer, "The Impact of Foreign Direct Investment on the United Kingdom," ed. Department of Trade and Industry (London: H.M. Stationery Office, 1973).
[46] Now called BUSINESSEUROPE
[47] In Servan-Schreiber, *The American Challenge*, 49f.
[48] The crucial passages of the editorial read as follows: "[T]here can be no doubt that both Governments and industry in Europe have become increasingly concerned at the growing importance of American-based companies in certain sectors of the economy. In cars, chemicals and pharmaceuticals, oil refining and distribution and electronics, for example, a substantial proportion of total production is in most European countries under foreign control. To say that this represents a danger is not to belittle the enormous contribution which, particularly since the war, U.S. capital has made to the prosperity of Europe. There are numerous instances in which the establishment of U.S. companies in some European country has provided much-needed competition for a local producer who otherwise would have dominated the market. Equally, however, there are cases where the one and only reason why a U.S. company has been able to buy out an established manufacturer has been because of the sheer amount of cash which it can dispose (…) There are (…) a number of steps which could be taken in Europe to cope with the problem. National Governments could exercise stricter control over foreign direct investment projects. A better organization of Continental capital markets would lessen the advantage which any American bidder for a European company enjoys in a competitive situation merely by his ability to lay his hands immediately on large sums of money. A greater readiness on the part of European Governments to encourage and facilitate joint ventures in technologically advanced and highly capital-intensive industries would enable American 'know-how' to be matched on this side of the Atlantic. (…) Finally, a lowering of tariff barriers would lessen the attractiveness of overseas operations in many fields.""The General Makes One Valid Point."

published in France in 1967, became an international bestseller, which sold over 600,000 copies in France alone[49] and was translated into 15 languages. As such, and even though his policy conclusions are radically different from those suggested by French mainstream politicians such as General De Gaulle, it provides a detailed insight into the social representation of FDI inflows in Europe and the very real concerns and fears surrounding them at the time.

Servan-Schreiber introduces the 'problem' of US FDI in Europe as follows:

> "Starting with a rather matter-of-fact examination of American investment in Europe, we find an economic system that is in a state of collapse. It is our own. We see a foreign challenger breaking down the political and psychological framework of our societies. We are witnessing the prelude to our own historical bankruptcy."[50]

Yet, Servan-Schreiber strongly rejects General De Gaulle's claim that this 'invasion' of US companies is due primarily to the "dollar inflation"[51]. Instead, he accepts that US companies do have a real competitive advantage over their European rivals, which he considers as being based primarily on their superior managerial skills: "This war – and it is a war – is being fought not with dollars, or oil, or steel, or even with modern machines. It is being fought with creative imagination and organizational talent."[52]

Despite this martial tone in his opening statements, Servan-Schreiber's analysis of US FDI in Europe is rather nuanced. He concedes that it has brought many benefits

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[49] Arthur Schlesinger Jr. wrote in 1979 that "[i]n France no book since the war, fiction or non-fiction, sold so many copies in its first three months" in *The American Challenge*, Foreword.
[50] Ibid., 31.
[51] Ibid., Foreword.
[52] Ibid., 31.

to the European economy. However – and this is key for our analysis of the social representation of FDI at the time –, he does not consider US FDI as a desirable solution for the long-term economic development of Europe because it is undermining its economic independence, which he – and, as I will argue, most of his contemporaries – saw as the ultimate aspiration of national economic policy:

> "[I]ndependence is not an ethical conception, but *an economic necessity*. In the short run, dependence is beneficial. American investment, although it is presently an instrument of domination is also the principal vehicle of technological progress for our economies. It introduces manufacturing processes and management techniques that are new to us. Indirectly, it forces European manufacturers to a rationalization and modernization they would never have accepted without such competition. The immediate economic effect of American investment is, therefore, quite positive. If we continue to permit American investment in its present form, Europe will share in the profits that foreign investors make from the high productivity. These profits spread throughout the economy, raising the general standard of living. (…) But in the long run this will change. To ask if the Europeans should turn an increasing share of their industrial development over to the United States is like asking whether it is better (economically) to be a wage earner or a company owner. There is a straightforward answer to this question as far as the nation-state is concerned. *Economic analysis shows that foreign investment imposes strict limitations on national development*, limitations inherent in the very process of industrial creativity. (…) Thus, the infusion of ever larger amounts of American investment into key industries has the short-term advantage of sparing Europe expensive research costs. But in the long run it deprives the European economy of the possibilities of rapid expansion that exist only in these key industries (…) If we can build a better industrial organization here in Europe, we will get faster and considerably greater benefits from it than we could from

what American investors would leave us after they have drained off dividends and royalties."[53]

So what should Europe do to confront this challenge to its economic independence? Considering any restrictive measures as self-defeating[54], Servan-Schreiber essentially proposes to 'take the bull by the horns': rather than keeping the Americans out of Europe, Europe (and Europeans) should become more American. In particular, he urges European politicians to deepen Europe's economic integration[55] and to pursue a pan-European industrial policy with the goal to build giant pan-European companies that can compete with its American challengers, especially in the field of technology[56].

Canada: Learning to walk without a 'crutch'

The stock of inward FDI in Canada was exceptionally high in international comparison throughout the post-War period until the 1990s (see Table 2.1). Naturally, most of these capital inflows originated from the United States and were

[53] Ibid., 59-61. [Emphases added]

[54] "(…) Europeans are faced with a dilemma that might well be of historic significance. If we allow American investment to enter freely under present conditions, we consign European industry - or at least the part that is most scientifically and technologically advanced and on which our future rests - to a subsidiary role, and Europe herself to the position of a satellite. If, on the other hand, we adopt effective restrictive measures, we would be double losers-denying ourselves both the manufactured products we need and the capital funds that would then be invested in other countries. By trying to be self-sufficient we would only condemn ourselves to underdevelopment. What can we do?" Ibid., 52.

[55] "Our back is to the wall. We cannot have both economic self-sufficiency and economic growth. Either we build a common European industrial policy, or American industry will continue taking over the Common Market."Ibid., 149.

[56] "As an alternative to annexation or satellization, there is the choice of competition. This demands that European businesses, particularly those in the area of 'Big Science,' become fully competitive on the global market. Figures show that they cannot do this from their own resources, and that government assistance is necessary, particularly in such areas as electronics, data processing, space research, and atomic energy." Ibid., 116.

concentrated in the natural resources[57] and manufacturing[58] industries. While the Canadian government originally welcomed (or at least chose to ignore[59]) these investments, in the 1960s Canadian politicians, policymakers and academics alike became increasingly worried about the potentially negative long-term consequences of the dependence of the Canadian economy on foreign companies[60]. Reflecting on this period, Canadian economist Edward Safarian summarizes the predominant views at the time as follows: "It was usually acknowledged that such decision making [i.e. facilitating the inflows of FDI] could lead to short-run gains through the import of capital and technology and because of market connections. In the longer run, it was argued, it led to 'truncation', that is, to firms which lacked entrepreneurial development and independent innovative capacity (…) The long-run effects, in brief, were said to be anti-developmental."[61]

On the initiative of Finance Minister Walter L. Gordon[62], the Canadian government commissioned an in-depth study of the benefits and costs of FDI in early 1966. The

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[57] Foreign ownership reached 64 per cent in the petroleum and natural gas sector in 1963, and 62 per cent in the mining and smelting industry in 1964. See Melville H. Watkins et al., "Foreign Ownership and the Structure of Canadian Industry: Report of the Task Force on the Structure of Canadian Industry," ed. Privy Council Office (Ottawa: Privy Council Office, 1968), 2.
[58] 54 per cent of the industry was foreign-owned in 1964. See ibid.
[59] In Edward Safarian's words, "[i]t is fair to say that Canadians generally, including governments, were *not seriously interested in the topic* until the second half of the 1950s, despite the high levels of foreign control of industries …" See Safarian, *Multinational Enterprise and Public Policy : A Study of the Industrial Countries*, 120.
[60] The 'Watkins Report' summarizes the general sentiment among policy elites at the time as follows: "The extent of foreign control of Canadian industry is unique among the industrialized nations of the world. Canadians are aware of the economic benefits which have resulted from foreign investment. They are also concerned about the implications of the present level of foreign control for Canada's long-run prospects for national independence and economic growth." Watkins et al., "Foreign Ownership and the Structure of Canadian Industry: Report of the Task Force on the Structure of Canadian Industry," 1.
[61] Safarian, *Multinational Enterprise and Public Policy : A Study of the Industrial Countries*, 122. For an elaboration of this argument, see Kari Levitt, *Silent Surrender: The Multinational Corporation in Canada* (New York: St. Martin's Press, 1970).
[62] Safarian, *Multinational Enterprise and Public Policy : A Study of the Industrial Countries*, 122.

research was carried out by a task force of eight leading Canadian academic economists[63] under the leadership of Melville H. Watkins of the University of Toronto. Their findings were published two years later in an influential policy report entitled "Foreign Ownership and the Structure of Canadian Industry" (subsequently, it came to be known simply as the 'Watkins Report'), which was widely read both within and beyond the borders of Canada.

The report describes FDI inflows as "a package of product, technology, management, capital and market access [that] brings with it large potential economic benefits for the host country", adding that "certainly these benefits are larger than are imagined by those who conceive of foreign investment as being simply a capital flow"[64]. The authors believe that "direct investment can increase employment in the host country, improve its balance of payments, and augment its standard of living"[65]. However, they continue, there can be too much of a good thing:"[T]he benefits from foreign investment may be subject to diminishing returns, that is, while some foreign investment provides a spur to the domestic economy, beyond some point it may become a crutch"[66]. Thus, even though the authors consider inward FDI as something generally beneficial, they argue that - especially if it comes in large quantities - it bears very significant risks for the national economic development of the recipient economy, which have to be addressed by public policy. The authors are concerned that, in the long run, FDI will threaten the political

[63] The taskforce consisted of: Melville H. Watkins (Head), Bernard Bonin, Stephen H. Hymer, Claude Masson, Gideon Rosenbluth, Abraham Rotstein, A.E. Safarian and William J. Woodfine.
[64] Watkins et al., "Foreign Ownership and the Structure of Canadian Industry: Report of the Task Force on the Structure of Canadian Industry," 37.
[65] Ibid., 38.
[66] Ibid., 41.

independence[67] of Canada as well as its prospects for national economic development: They consider FDI as a challenge to national sovereignty because "[f]oreign direct investment tends to shift the locus of decision-making outside of Canada and risks reducing the capacity of the Canadian government to implement its decisions in the public interest"[68]. In addition, they worry that the excessive reliance on foreign companies will undermine the long-term indigenous industrial development of Canada because it fosters an economic structure of 'dependence':

> "[T]he very inflows of inputs that come with foreign investment and create the benefits also tend simultaneously to generate costs or problems. The influx of senior personnel from the parent provides management skills of a higher quality; but the ease with which managerial and entrepreneurial skills can be imported may reduce incentives to improve these skills in the host country. Capital inflow increases aggregate saving and investment and the rate of economic growth; but the institutional development of a national capital market may be inhibited and the range of choice facing the investor reduced. The direct investment firm provides easy access for the subsidiary to the technology of the parent; but the latter is not necessarily the appropriate technology for the host country, and the potential to become a leader rather than a follower may be diminished (…)"[69]

[67] Three issues in particular were fuelling these concerns: the US governments' efforts to forbid Canadian companies trading with communist countries, the unilateral imposition of balance of payments controls and the Nixon shock.

[68] Watkins et al., "Foreign Ownership and the Structure of Canadian Industry: Report of the Task Force on the Structure of Canadian Industry," 345. Referring in particular to the US interest equalization tax, balance-of-payments controls on outward FDI and prohibitions to trade with certain communist countries, the authors lament the "intrusion of American law and policy into Canada" (ibid.). Or how Melville Watkins formulated it more bluntly during a formal speech: "Key decisions relevant to Canadians are thus made by Americans in corporate board rooms in New York and in government conference rooms in Washington". See Melville H. Watkins, "A New 'National Policy' for Canada," *The Empire Club of Canada Addresses*(1968), http://speeches.empireclub.org/61150/data?n=15.

[69] Watkins et al., "Foreign Ownership and the Structure of Canadian Industry: Report of the Task Force on the Structure of Canadian Industry," 38-39.

To confront this double-challenge to Canada's political and economic independence, the authors suggest "to devise national policies which will increase the benefits and decrease the costs of foreign investment"[70]. Calling for "A New National Policy"[71], they propose three broad sets of reform: First, they call for legal reforms to regulate the activities of foreign subsidiaries more stringently and to make sure that the foreign subsidiaries act in the Canadian public interest[72]. Second, to avoid the monopolistic or oligopolistic patterns of MNC expansion, which they see as being primarily to the benefit of foreign shareholders rather than the Canadian public, they suggest improving Canadian competition laws in order to increase the efficiency of the Canadian economy. Third, they argue strongly for the need of a greater involvement of domestic actors (i.e., to 'Canadize' the Canadian economy), the active encouragement of Canadian entrepreneurship through industrial policy[73], and the use of "other options"[74] to access foreign capital and technology that do not require "relinquishing control", such as licensing arrangements, the hiring of foreign experts, sending students to study abroad etc. In a speech held shortly after the publication of the report, Watkins summarized the challenge as follows:

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70 Ibid., 2.

71 "The old National Policy served Canada in its day, as an instrument of nation-building and a means of facilitating economic growth. The challenges have changed and a new National Policy is required. The nation has been built, but its sovereignty must be protected and its independence maintained. A diversified economy has been created, but its efficiency must be improved and its capacity for autonomous growth increased. (…) *Increased economic interdependence among nations is recognized, but also that a stronger national economy is needed to function effectively in a global setting*" ibid., 415. [emphasis added]

72 Such as increasing the private Canadian presence in the decision-making organs of foreign-controlled subsidiaries. See ibid., 345.

73 Cf. Watkins statement that "more encouragement should be given to Canadian firms to evolve into multi-national firms" in Watkins, "A New 'National Policy' for Canada".

74 Watkins et al., "Foreign Ownership and the Structure of Canadian Industry: Report of the Task Force on the Structure of Canadian Industry," 2. See also ibid., 68.: "While foreign techniques are available through direct investment, there are alternative ways of securing them. Patents can be licensed, foreign experts can be hired, nationals can be sent abroad for education, and foreign products can be copied."

> "The extent of foreign ownership of Canadian economy activity has meant the creation of a branch-plant economy in Canada. Such an economy has inherent limitations in terms of its potential for economic growth in a world of constant innovation. A branch plant is not where the action is, in terms of new products, technologies and ideas, and neither is a branch plant economy. An economy more under our control might well have a greater capacity for autonomous and sustained growth."[75]

In sum, even though the authors see 'some' FDI as potentially beneficial in the short- to medium-term, they don't consider them as an end in themselves. In their view, the ultimate goal of economic policy is clearly to achieve a thriving 'independent' economy, which is structured around entrepreneurial indigenous firms[76].

Apparently, this rather skeptical attitude towards FDI resonated with a growing share of the Canadian public: An opinion survey conducted every year from 1969-1977 found an increase in the proportion of respondents who believed that "U.S. Investment in Canada is a 'Bad Thing'" jumped from 35% in 1969 to 55% in 1974[77]. The open-ended question why U.S. Investments are *good* was answered in the following order of frequency: 1. The creation of employment, 2. The development of resources in Canada, and 3. That they bring money into Canada. The most frequently mentioned reasons why U.S. Investments are *bad* were 1. That Canada should control its own affairs, 2. That the profits leave the country, and 3. That Canada should be more independent.

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[75] Watkins, "A New 'National Policy' for Canada".

[76] In his formal address, Watkins laments the lack of entrepreneurial thrive of Canadian firms and "an emasculated business class *satisfied, by and large, to manage a branch plant economy*". He continues: "My argument is that a successful National Policy should have created Canadian entrepreneurship capable of dominating the Canadian economy." See ibid. [emphasis added]

[77] Alex J. Murray and Lawrence LeDuc, "Changing Attitudes toward Foreign Investment in Canada," in *Host National Attitudes toward Multinational Corporations*, ed. John Fayerweather (New York: Praeger Publishers, 1982). Interestingly, the authors say that older and poorer respondents generally tended to have a more positive attitude towards US FDI than younger and richer respondents.

Two years after the publication of the Watkins Report, *The Economist* reported that "public opinion has become emphatic and a failure to do something to assure that foreign-owned companies belong to the Canadian economy and are subject to Canadian law is something that the Trudeau government can afford less than any other"[78]. Finally, in 1973 the government introduced a new review mechanism for FDI inflows, which set out stringent criteria for takeovers of Canadian companies by foreign interests as well as some review procedures for new projects of MNCs already present in Canada[79], making Canada one of the least welcoming of FDI among the industrial economies except Japan.

Japan: 'Not Quite Playing the Game'

The Japanese government had closed its economy to foreign investors in 1931[80]. Under the allied occupation at the end of World War II, it started to gradually remove some of the restrictions from 1949 onwards, but its approach remained generally highly restrictive: The Foreign Investment Law of 1950 subjected all planned acquisitions by foreign investors to a strict administrative screening procedure during which "[t]ypically foreign investors were pressured to abandon FDI, and license their technology to Japanese companies; if the foreign investor refused to license, then a joint venture with a Japanese firm was proposed"[81]. As a result of this explicitly discouraging approach (as well as due to the lack of interest

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[78] "A Continental Embrace," *The Economist*, 19 September 1970.
[79] "Sohl Cries Wolf," *The Economist*, 9 June 1973.
[80] Jones, *Multinationals and Global Capitalism: From the Nineteenth to the Twenty-First Century*, 207.
[81] Ibid.

by foreign investors before the late 1950s), the stock of inward FDI in Japan remained exceptionally low (see Table 2.1).

After joining the OECD in 1964, the Japanese government was exposed to increasingly strong pressures to liberalize its investment regime in accordance with the so-called 'best practices' identified by the organization[82]. Yet, the negotiations turned out to become a "perennially tricky topic"[83]. While the Japanese Ministry of Finance supported an opening up of the economy to foreign investors, presumably because of the expected positive effect of inward FDI on the balance of payments, the politically powerful Ministry of International Trade and Industry (MITI) was strongly opposed[84]. As a result, the government removed some of the restrictions, but simultaneously introduced others; accordingly, the predominant view among western government and business circles was that "Japan was not quite playing the game" and that "no other advanced industrial nation limits the foreign investor as strictly as Japan"[85].

The Japanese business community was also very reluctant to cooperate with foreign investors. A 1966 survey showed that only 10 per cent of the respondents would in principle be willing to consider a joint venture agreement[86]. Some of the reasons against greater foreign participation in the Japanese economy were the perceived

[82] Cf. the fascinating account focusing on the process of capital account liberalization in Japan provided in Rawi Abdelal, *Capital Rules: The Construction of Global Finance* (Harvard University Press, 2007).
[83] "Can Foreign Capital Be Freed?," *Financial Times*, 16 November 1966.
[84] Ibid.
[85] Ibid.
[86] Ibid.

"cultural differences"[87], a "fear of monetary aggression"[88], "disorderly competition"[89], "disruptive effects (…) in the labour market"[90], and "the pressure of foreign competition in sectors where the Japanese industry still consists predominantly of small units"[91].

Nonetheless, in response to the insistence of the OECD, as well as bilateral lobbying by the US and UK governments, in June 1967 the government finally announced that it will partially lift restrictions on inward FDI in specific sectors[92] - a decision, which was received enthusiastically by the *Financial Times,* which called it "one of the most important decisions ever taken by Japan - commercial or otherwise"[93]. However, the excitement waned quickly as it became clear that the liberalization was going to be restricted to those industries in which Japanese companies were internationally highly competitive, such as shipbuilding, steelmaking or the production of soy sauce[94]. One year later, the same newspaper ascertained that the Japanese government had received "no single application" by any foreign investor, concluding that "the whole atmosphere remains restrictive"[95].

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87 Ibid.
88 M.H. Fisher, "Japan - Financial Times Survey: Government Control of Foreign Capital," ibid., 4 November 1968.
89 Ibid.
90 Ibid.
91 Ibid.
92 100% foreign ownership was to be allowed in 17 industrial sectors, 50% in another 33 sectors; in the remaining sectors FDI approvals were to be decided on a case-by-case basis. See "Foreign Investment in Japan: The Door Creaks Open," ibid., 15 June 1967.
93 Ibid.
94 "Japan - Financial Times Survey: Government Control of Foreign Capital," ibid., 4 November 1968. In addition, the extensive cross-shareholding structure (*keiretsu*) made foreign takeovers nearly impossible. See Jones, *Multinationals and Global Capitalism: From the Nineteenth to the Twenty-First Century*, 207.
95 Fisher, "Japan - Financial Times Survey: Government Control of Foreign Capital."

In sum, public attitudes towards US MNCs were mixed in all the major European economies, Japan and Canada. US MNCs were perceived as a useful means for domestic companies to access new technologies, to improve the balance of payments and reduce unemployment. Yet, at the same time, concerns that they may undermine domestic industries and economic sovereignty were widespread. The perception of FDI was generally more positive among civil servants and businessmen than politicians, labour unions and the public at large. The USA and Germany were the only two major economies, which did not impose any regulatory mechanisms in the 1960s. The UK and France both pursued a policy of 'qualified welcome' (with France's welcome tending to be somewhat more 'qualified'). After a period of openness towards US investments, public attitudes grew increasingly hostile in Canada in the 1960s, leading to the adoption of one of the most restrictive FDI regimes among developed countries in 1973. Japan remained de facto nearly inaccessible to foreign investors. Capturing the global sentiment at the time, *The Economist* judged in the late 1970s that "[w]hether they [MNCs] will continue to grow as fast as they have in the past is uncertain. Multinationals have plenty of critics, so they may become subject to more control by their governments at home, and be less welcome abroad."[96]

THE JAPANESE CHALLENGE, 1973-1992

With hindsight we know that global FDI flows did not decline, as feared by *The Economist*; instead, MNCs continued to expand at an even faster pace in subsequent

[96] "Made by Multinationals," *The Economist*, 21 April 1979.

decades (cf. Table 2.1). As this thesis aims to show, the changing social representation of FDI inflows were a crucial development that allowed this - at least for contemporaries in the early 1970s - rather surprising outcome to happen. In this regard, the period spanning from 1973 to 1992 was a crucial transition phase during which the predominant social representation of inward FDI started to become more favourable and the policy environment turned gradually more welcoming for MNCs[97], first in Europe and in the 1980s also in Canada and (to a more limited extent) in Japan. Paradoxically, the US, which had been open to inward FDI while others were concerned during the 1960s, turned increasingly hostile towards inward FDI[98].

If the 1950s and 1960s had been the period of internationalization of US MNCs, the 1970s and 1980s were primarily the period of international expansion by European and Japanese MNCs. The dollar-and-oil double-shock of 1973 marked an important turning point after which the share of global FDI flows originating from the US started to decline while US FDI *in*flows began to increase markedly (cf. Table 2.1). At the same time, even though manufacturing industries remained the primary destination for FDI, FDI in the services sector became gradually more important. In the aftermath of the debt crises in the 1980s, the IMF and the World Bank started to

[97] On 19 February 1983, The Economist reported that “Multinational companies are coming in from the cold. Governments in the rich and poor world, anxious for new investment to promote jobs and exports are giving multinationals a warmer welcome. The slump is hastening a thaw in relations that began about 10 years ago.” "Big Is Not So Bad after All," *The Economist*, 19 February 1983.

[98] “As foreign investment in America expanded so did American concern about it (…) Fifteen years or so ago many Europeans feared that American multinationals were occupying the heights of Europe’s economy. (…) Now it is Americans who are agitated about an invasion of their economy by foreign multinationals”. "Challenge in Reverse," *The Economist*, 25 October 1980.

actively encourage developing countries to attract FDI[99] and the UN also shifted to a notably more favorable attitude[100]. Nonetheless, FDI flows to developing countries were relatively small and highly concentrated in Hong Kong, Singapore, China, Brazil and Mexico. In 1990, the Triad North America-Europe-Japan still accounted for 80% of FDI flows[101]. Accordingly, FDI was still very much an intra-OECD phenomenon. The remainder of this chapter will give a broad overview of the reception of these flows in the six major OECD economies in the 1970s and 1980s.

United States: 'Sincere hypocrisy'?

By making US assets cheaper, the devaluation of the US dollar in 1973 sustained a period of large FDI inflows from European and Japanese MNCs[102] (cf. Table 2.1), which supported the recovery of the US balance of payments, but soon evoked political controversies. While several US state governments, hoping to create regional employment opportunities, were eager to attract European and Japanese manufacturing FDI[103], numerous federal politicians were increasingly concerned about the influx of foreign companies. In April 1974, *The Economist* reported that "lobbies in the American Congress are, if anything, even more agitated by foreign takeovers of American companies than the European Commission is by American

[99] "No Direct Answer," *The Economist*, 27 April 1988.
[100] "Come Back Multinationals," *The Economist*, 26 November 1988.
[101] "Foreign Investment and the Triad," *The Economist*, 24 August 1991.
[102] "Making It in the United States."
[103] Many US states established Investment Promotion Agencies in Europe, predominantly in Brussels, and started offering increasingly attractive financial and tax incentives to MNCs during the 1970s. Economist. See "All Roads Lead to Brussels," *The Economist*, 27 April 1974.

companies swallowing up European firms"[104]. In September of the same year, US Congress commissioned an extensive study into the extent and effect of foreign investments in the US. The topic was such a 'hot' issue that a British government minister commented humorously that the topic of FDI "is, at one and the same time, intellectually complicated and fraught with high emotion. It is a problem which invites contention and which therefore is dangerous, especially among old gentlemen, as it is apt to raise the blood pressure. In the United States, of course, which has been quoted as a high citadel of capitalism, this theme is especially ferociously debated and I understand that one Congressman passed out."[105]

Four trends in particular seemed to worry US politicians: the increases of FDI in the form of takeovers of established US firms (rather than greenfield projects), increasing investments from Japanese and 'Arab'[106] (rather than European) investors, the observed 'recycling' of US dollars - which annulled the positive effect on the balance of payments that was usually attributed to inward FDI -[107], and the expansion of foreign investors towards industries that were considered as 'sensitive' in terms of national security (e.g. domestic air transport and shipping, radio and TV, telecommunications, energy, etc.)[108]. In addition, many politicians resented the lack

[104] Ibid.
[105] Lord Balogh, Minister of State at the Department of Energy in: UK Hansard, "Debates in the House of Lords," vol359 cc47-445 347.
[106] In reality the share of FDI from Japanese and Middle Eastern sources were relatively small, but vastly overestimated in public perception. An inquiry by the *Economist* showed that in particular Middle Eastern governments invested primarily into government securities, portfolios of stocks and bonds, certificates of deposit and real estate and hardly acquired majority stakes in any US companies. In 1976, the largest sources of FDI by country were: the UK, Canada, Switzerland, the Netherlands, Germany and Japan; their investments went primarily into manufacturing (40 per cent of inward FDI), oil (20 per cent), wholesale and retail (20 per cent), and banking, insurance and finance (14 per cent). "Less Than Meets the Eye," *The Economist*, 18 December 1976.
[107] "Money Moves In."
[108] "We Love You Not, We Love You," *The Economist*, 29 November 1975.

of reciprocity in international FDI policies (i.e. the rights of foreign investors in the US were not affected by the treatment of US investors in their respective home country). By November 1975 political resistance against FDI had become so widespread that *The Economist* reported: “This Thanksgiving legal challenges to takeover bids are as much part of America as cranberry sauce and pumpkin pie. (…) For a country whose firms have taken over so much abroad, this is sincere hypocrisy”[109]. In the same year, President Ford created the Committee on Foreign Investment in the United States (CFIUS), which was to have “primary continuing responsibility within the Executive Branch for monitoring the impact of foreign investment in the United States (…) and for coordinating the implementation of the United States policy on such investment.”[110]

In a polemic book published in 1978, journalist Kenneth C. Crowe expressed his alarmist views (apparently widespread enough to be publishable…) as follows:

> “Is America for sale? The simple answer is yes! America is for sale, in bits and pieces and large chunks - its stocks and bonds, its companies and real estate, its ideas and individuals. It always has been for sale, but never before have the buyers come in such large numbers from so many diverse parts of the earth. The buyers are the nouveau-riche Arabs, imperial Iran, the busy Japanese, the new econ-invaders: the governments of Germany, Britain, France, Romania [sic], Holland, Canada, Kuwait, Saudi Arabia, and Iran. (…) Foreign investment is good and bad. It is rarely good for all of the people. Some get jobs, some get fees, some get taxes, some get profits. Spiritually, it breaks down the barriers of the nation-state, race, religion, and culture. Conversely it brings absentee

[109] Ibid.
[110] "Executive Order 11858--Foreign Investment in the United States," (Washington: Federal Register, 1975). For an analytical history of the creation of CFIUS, see C. S. Eliot Kang, "Us Politics and Greater Regulation of Inward Foreign Direct Investment," *International Organization* 51, no. 2 (1997).

> landlords, the draining of profits abroad (…), new pressures on the United States Government, and worst of all the insidious attack on the free enterprise system through investment by foreign governments."[111]

While public opinion was relatively unconcerned about the increases in FDI from European companies, the tone towards Japanese FDI became increasingly aggressive throughout the 1980s and numerous laws to monitor, control and screen foreign investment were discussed at both the federal[112] and state levels throughout the 1970s and 1980s. Most of the legislative proposals were, however, rejected, with the exception of the so-called 'Exon-Florio'[113] amendment, which created a formal process to review foreign investments and provided the president with a veto power to block foreign investment when 'national security' was threatened. President Reagan, however, was firmly opposed to any attempts to restrict FDI inflows. As part of the neoliberal narrative that he strongly promoted, he conceptualized inward FDI as a positive economic force that increases competition and economic efficiency. In response to the political pressures to restrict inward FDI, in particular FDI coming from Japan[114], his administration released an official statement on 9 September 1983, in which the President, developing the 'neoliberal' representation of inward FDI, dismissed any such possibility:

> "I am releasing a major statement on international investment. This statement (…) encompasses the views of this administration on international investment. The last time such a policy paper was released was (…) more than 6 years ago. Since then, we have

[111] Kenneth C. Crowe, *America for Sale*, 1st ed. ed. (Garden City, N.Y.: Doubleday, 1978), 1-8.
[112] At least 24, according to"Good for You," *The Economist*, 29 June 1991.
[113] Named after Senator James Exon (D-NE) and Representative James Florio (D-NJ).
[114] For a bestseller that elaborates the nature of the perceived 'Japanese threat', see Clyde V. Prestowitz, *Trading Places: How We Allowed Japan to Take the Lead* (New York: Basic Books, 1988).

> come to view international investment which responds to market forces as a vital and necessary ingredient in a stable, growing world economy. A world with strong foreign investment flows is the opposite of a zero-sum game. We believe there are only winners, no losers, and all participants gain from it. (…) The statement I am releasing enunciates the fundamental premise of our policy that foreign investment flows which respond to private market forces will lead to more efficient international production and thereby benefit both home and host countries. It also highlights three other important points. First, our concern with the increasing use of governmental measures to distort or impede international investment flows. Secondly, our strong support for the concept of national treatment which extends to foreign direct investors in the United States. And finally, an enumeration of specific multilateral and bilateral steps the administration has taken, and will take, to help liberalize international investment flows."[115]

The Reagan administration thus strongly supported the free flow of international capital. Its welcome to foreign investors, however, was not enthusiastic and primarily the result of its commitment to the principle of free markets in general rather than a positive evaluation of FDI specifically. The interests of the 'national' economy and 'national' industry remained the focus of its policies and despite the official non-discrimination approach, reservations about inward FDI were very present, among liberal economists[116] as well as in the inner circle of President Reagan. For example, Malcolm Baldridge, Reagan's Secretary of Commerce from 1981 to 1987, expressed his cautions as follows: "I think socially as well as financially there's much more gain to having an open investment policy throughout the world

[115] See "Statement on International Investment Policy," (The American Presidency Project, 1983).
[116] See Graham and Krugman, *Foreign Direct Investment in the United States*. Although being generally in favour of inward FDI, Graham and Krugman highlight foreign MNCs' propensity to import intermediate products and the non-reciprocity of liberal FDI regulations between the USA and Japan as two critical policy problems.

than the converse (…), [but] *[w]e simply don't want to be dependent on those flows* (…) If we get hooked on them, we will be in trouble at some time in the future"[117].

Europe: The FDI Allegretto – Variations on a Theme

The year of the devaluation of the US dollar (1973) and the ensuing turbulences in the global economy mark an important turning point in European economic history: the end of Europe's 'golden era', and the difficult transition from an *extensive* to an *intensive* model of economic growth[118]. According to economic historian Barry Eichengreen[119], the rapid recovery of the European economies from 1948-1973 was based primarily on the brute-force capital accumulation and the assimilation of known technologies from the USA, which allowed European economies to catch-up and (nearly) converge with the leading economy[120]. As the Western European economies had overcome capital shortages and were approaching the technological frontier, their ability to grow through the acquisition and adaptation of US technologies waned. To maintain economic growth, European policymakers had to start the difficult task of adapting a model of *intensive* economic growth, based on increases in efficiency and *internally generated innovations*[121].

[117] In Martin Tolchin and Susan J. Tolchin, *Buying into America : How Foreign Money Is Changing the Face of Our Nation* (New York: Times Books, 1988), 25-26.
[118] Eichengreen, *The European Economy since 1945: Coordinated Capitalism and Beyond*.
[119] Ibid.
[120] The GDP per hour as a percentage of U.S. levels, a measure of productivity, in France, Germany and Italy increased from 32(Germany)-46(France) per cent in 1950 to 74(France)-79(Germany) per cent in 1973. In contrast, British productivity stagnated at about 60 per cent of U.S. levels. See ibid., 18.
[121] Ibid.

The end of the European 'growth miracle' also meant an end to the seemingly infinite growth opportunities for US MNCs in Europe[122]: In addition to the rather chilling welcome and the initiatives of European governments to promote joint ventures rather than acquisitions (MNC's preferred mode of entry), the dollar devaluation made Europe significantly more expensive for US MNCs at the same time that the political wins of socialists and communists in Italy and France created political uncertainty. As a whole, enough to make US MNCs "want[ing] to go home"[123]. Yet, paradoxically, as US MNCs became "less enchanted"[124] with Western Europe, Western Europe became increasingly enchanted with US MNCs, albeit with some national variations: Among the 'Big Three', the UK was the first country that started to explicitly attract inward FDI at a national scale in the late 1970s. While the French administrations maintained an anti-FDI discourse, in reality they significantly opened up their FDI regime (especially so after Mitterrand's right-turn in the mid-1980s). In contrast, the German government, despite an official policy of openness towards FDI, actively supported informal mechanisms to protect domestic industries from foreign takeovers.

The UK had been one of the worst performing European economies in the post-war era[125]. Besides its traditional liberal legacy, this may be one reason why UK policymakers, desperately seeking for ways to improve economic growth, were among the first countries in which the neoliberal narrative found political resonance.

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122 The "sweetest deal ever" for US MNCs, in Servan-Schreiber's terminology. See Servan-Schreiber, *The American Challenge*, 35.
123 "American Multinationals Want to Go Home," *The Economist*, 17 April 1976.
124 Ibid.
125 Even though the economy started from a higher level. Cf. Eichengreen, *The European Economy since 1945: Coordinated Capitalism and Beyond*.

As a consequence, the UK was also one of the first large advanced economies to 'warm up' towards inward FDI[126]. The political discourse about inward FDI became notably more positive in the mid-1970s. According to a Chatham Report on inward FDI published in 1984, "British policy (…) has shifted from the somewhat schizophrenic approach (…) in the 1960s and 1970s to one which could be described as 'positive welcome'"[127]. A statement by the Secretary of State for Industry issued in 1982[128] justified the shift towards a more liberal FDI policy as having a positive impact on the balance of payments (through capital inflows as well as by supposedly reducing imports and raising exports), and as increasing not only the quantity, but also the *quality* of output and employment. Similarly to Reagan in the USA, Margaret Thatcher – whose position towards inward FDI is elaborated in more detail in Chapter 6 – considered FDI as a beneficial force enhancing international competition and thereby forcing domestic industries to be efficient, but she still considered the latter - *national* firms and industries - as the principal drivers of national economic development.

A few years later than in the UK, the FDI policies of France and Germany' position towards inward FDI also became notably more liberal. The French government had for long been perceived as an advocate of "industrial xenophobia" whose "main objective was to keep out foreigners"[129]. This had always been somewhat of a misperception because the French government - even though it had adopted a

[126] Throughout the 1970s and 1980s, the UK and Canada were the economies most dependent on inward FDI (cf. Table 2.1)
[127] Michael Brech and Margaret Sharp, *Inward Investment: Policy Options for the United Kingdom*, Chatham House Papers (London, Boston and Henley: Routledge & Kegan Paul, 1984), 19.
[128] In ibid.
[129] Ian Davidson, "European Investment Locations: A Change of View," *Financial Times*, June 05 1990.

variety of formal mechanisms to regulate FDI inflows and to protect domestic industries - was in practice more liberal than its discourse suggested[130]. The French Committee on Foreign Investment did review applications from foreign investors to ensure that FDI projects were consistent with the government's industrial plans and often encouraged foreign investors to include local participants. But only very rarely did the Committee actually block FDI projects[131]. In a combination of a period of slow economic growth, a fundamental re-thinking of economic strategy among French technocratic elites[132] and sustained pressures from the EC, France further liberalized its FDI policies throughout the 1980s. In the early 1980s, the government abandoned its policy to pressure foreign investors for local participation via joint ventures[133]. In the mid-1980s it got rid entirely of the review mechanism by moving to a 'notification only' system for foreign investors from the ECC; exchange controls were abolished soon thereafter[134]. In the early 1990s the government removed most of the remaining restrictions and, in addition, started to devise programs to attract

[130] In fact, France's inward FDI stock as a share of GDP was always close to the global average and notably higher than, for example, the FDI stock of the officially liberal Germany. One expert described the French FDI policy approach in the 1970s as one of 'selective encouragement' rather than restriction. See Safarian, *Multinational Enterprise and Public Policy : A Study of the Industrial Countries*, 211.
[131] Interestingly, the emphasis on the criteria that the Committee used reportedly shifted over time: in the early 1960s and 1970s, the Committee was particularly favourable towards FDI that had the potential to improve the technological development of domestic firms, in the 1980s it focused increasingly first on the number and later the quality of jobs created. See ibid., 215.
[132] See Vivien A. Schmidt, *From State to Market? The Transformation of French Business and Government* (Cambridge, UK: Cambridge University Press, 1996).
[133] Reportedly, a government official involved in the process simply stated that "[t]here are too many problems these days to be dogmatic on such matters". In Safarian, *Multinational Enterprise and Public Policy : A Study of the Industrial Countries*, 221.
[134] Ibid.

foreign investors at the federal level under the coordination of the regional development agency DATAR[135].

In contrast to France, the German government had *de jure* always been open to inward FDI. Indeed, Germany was one of the few European countries that had not put in place a formal screening mechanism in the 1960s-1970s. However, the inflows of FDI to Germany were well below average in the 1980s when Germany experienced one of the lowest ratios of inward FDI stock as a share of GDP among the major industrial economies (cf. Table 2.1). This puzzling outcome is not due to a lack of investment opportunities in the German economy, but several informal mechanisms, which made the German economy much less open to FDI than the liberal FDI laws would suggest. First, most of the largest companies in the banking, services, mining, manufacturing, utilities and transportation industries were owned by the state, and many of them enjoyed a monopolistic market position, deterring foreign investors[136]. Second, a complex web of cross-shareholding among the major German industrial and financial firms (the so called 'Deutschland AG') made it difficult for foreign companies to buy large stakes in major German companies. Third, German corporate governance laws, which required the participation of worker representatives on supervisory boards were seen with suspicion by many potential foreign investors, in particular those from the US. Fourth, the German Cartel Office pursued the "most stringent anti-trust policy in Europe"[137] and actively blocked some attempted foreign takeovers in the name of competition laws. Finally,

[135] Davidson, "European Investment Locations: A Change of View."
[136] Safarian, *Multinational Enterprise and Public Policy : A Study of the Industrial Countries*, 325.
[137] Ibid.

when hostile takeover bids by foreign MNCs became public, the German government often informally encouraged large companies and banks to put together German 'counter-bids'[138]. The 'fear' of foreign takeovers was greatest in the mid-1970s after the acquisition of a 25% stake of *Krupp* by the Iranian government and 14% of *Daimler-Benz* by the Kuwaiti government "touched off a storm"[139]. However, towards the end of the 1980s, most of these fears seemed to have dissipated when the German government facilitated the gradual dismantling of the cross-shareholding structure[140], proceeded with the privatization of state companies and created, in 1991, a national Investment Promotion Agency, the *Zentrum für die Betreuung von Auslandsinvestoren (ZfA)*[141].

Canada: 'More than oil, trees and water'

Canada significantly tightened its FDI regulation in 1973 through several amendments to the Foreign Investment Laws, which created a stringent review mechanism that was to be administered by the newly created *Foreign Investment Review Agency* (FIRA). According to the new law, all investments into existing or new businesses in Canada by a foreign acquirer with more than 250,000USD assets had to be approved by the FIRA on the grounds that it will 'benefit Canada'.[142] In comparison, the FIRA took its mandate more seriously than similar agencies in other

[138] Brech and Sharp, *Inward Investment: Policy Options for the United Kingdom*, 20.
[139] Safarian, *Multinational Enterprise and Public Policy : A Study of the Industrial Countries*, 326.
[140] Cf. Pepper D. Culpepper, "Institutional Change in Contemporary Capitalism: Coordinated Financial Systems since 1990," *World Politics* 57, no. 2 (2005).
[141] Now 'Germany Trade&Invest (GTAI)'
[142] The criteria how to measure these benefits were unclear, creating uncertainty. Safarian, *Multinational Enterprise and Public Policy : A Study of the Industrial Countries*, 130.

countries and intervened very actively in subsequent years, rejecting at least 15 per cent of the applications made by foreign investors[143]. And indeed Canada was the only country among the major industrial economies in which the stock of FDI relative to GDP *de*creased throughout the 1970s and 1980s (cf. Table 2.1). The share of Canadian industry controlled by foreign investors fell sharply[144] to levels that were closer to those in other industrial economies. In the early 1980s, however, the Canadian government started to backtrack on this approach. According to Safarian[145] a series of studies by the *Economic Council of Canada* played an important role in these developments by shifting the emphasis to "the broader issue of the generation and diffusion of innovations" and the "different roles played by domestic and foreign-owned firms in the process of producing and distributing knowledge". After winning the elections in 1984, the conservative government of Brian Mulroney, demonstrating a "much more welcoming attitude to FDI"[146], closed the FIRA and replaced it with a new agency called *Investment Canada*, which didn't reject any formal investment application throughout the 1980s[147] and instead started "scouring the globe trying hard to persuade foreign investors that Canada is more than oil, trees and water"[148].

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[143] Tolchin and Tolchin, *Buying into America : How Foreign Money Is Changing the Face of Our Nation*, 211.
[144] From the late 1970s to 1987, it fell from 61% to 49% in manufacturing, from 76% to 34% in petroleum and natural gas and from 70% to 27% in mining and smelting. Safarian, *Multinational Enterprise and Public Policy : A Study of the Industrial Countries*, 120.
[145] Ibid., 142.
[146] Ibid., 135.
[147] However, it still required foreign investors in the natural resources, cultural industries and high-tech sectors to meet certain conditions. Ibid.
[148] "America's Half-Open Back Door," *The Economist*, 17 January 1987.

Japan: From formal to informal restrictions

Japanese outward FDI increased sharply throughout the 1970s and 1980s. In contrast, the government remained reluctant to allow foreign investors access to the Japanese economy. Even though the government responded to the persistent pressures from the OECD, the USA, UK and MNCs[149] to liberalize its FDI policy by gradually opening up more sectors to foreign investments throughout the 1970s[150] and by finally abolishing the Foreign Investment Law altogether in 1980 and replacing the approval procedure with a notification-only system, FDI inflows into Japan remained extraordinarily low in a comparative perspective (cf. Table 2.1). An important reason for this anomaly was that instead of opening up to FDI, the Japanese government and businesses, similarly to Germany, simply shifted the focus of FDI restrictions from formal government regulations to informal government and business practices[151]: First, the application of the 'anti-monopoly law' became notably stricter when judging potential foreign investments. Second, the private sector, supported by the government, extended its sophisticated cross-shareholding structure (the so-called *keiretsu*), both horizontally (particularly prominent among Japanese banks) as well as vertically (along the supply chains) to protect each other from foreign takeovers. Third, several structural factors of the Japanese economy further discouraged foreign investors[152]: most business was done within the conglomerates and it was extremely difficult for a foreign investor to get access to

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[149] See Dennis J. Encarnation and Mark Mason, "Neither Miti nor America: The Political Economy of Capital Liberalization in Japan," *International Organization* 44, no. 1 (1990).
[150] The automobile industry was opened in 1971. In 1973 all but 22 remaining sectors were formally opened up. See Kyōji Fukao and Ralph Paprzycki, *Foreign Direct Investment in Japan : Multinationals' Role in Growth and Globalization* (New York, NY: Cambridge University Press, 2008), 40.
[151] The 'Inner Door'. Ibid., 41ff.
[152] Ibid., 44.

these networks. For example, because the conglomerates possessed their own distribution systems there were no independent large distributors in Japan, which made it very difficult for foreign companies to sell their products. In addition, it was difficult for foreign companies to find adequate staff because employers were expected to provide the necessary training themselves as well as to grant them very extensive social protections. Lastly, the rapidly appreciating yen made the costs of business in Japan were very high for foreign companies. As a whole, this meant that the formal liberalization of 1980 had in fact "little meaning in practice"[153]. M&A remained "practically unavailable in Japan even after the dismantling of most official barriers to FDI"[154].

In a global perspective, the period from 1973 to the early 1990s was thus an important transition phase during which the attitude of governments, policymakers and publics in the major industrial economies towards FDI became increasingly positive, starting in the UK in the late 1970s and spreading to France, Germany and Canada in the mid-1980s. Overall, the USA and Japan remained somewhat more reserved about the benefits of inward FDI, at least until the crash of the Japanese stock market in 1992. As Japan entered a long period of economic stagnation, US concerns about the 'Japanese challenge' and about FDI more generally started to dissipate. At the same time, the Western triumphalism in the aftermath of the dissolution of the Soviet Union encouraged further changes in predominant

[153] Ibid., 43.
[154] Ibid.

economic narratives, leading to a renewed re-thinking of the economic meaning of inward FDI, which is described in the next chapter.

SYNTHESIS: THE 'OLD' PERCEPTION OF FDI

The dominant perception of FDI in the period of statism of the 1960s and 1970s was thus rather skeptical. Foreign MNCs were seen as 'opportunistic' agents that could have a positive short-term impact on a national economy, but they could not be trusted to act in the national interest of long-term economic development. There were primarily three distinct categories of perceived benefits of FDI, which received varying emphasis in the political discourse about FDI according to a country's most pressing needs: First, countries with balance of payments concerns (primarily the USA before 1973) appreciated the positive accounting effect on the capital account[155]. Second, countries (and especially regions within European countries) with high levels of unemployment saw FDI as a precious supplier of jobs, more specifically large quantities of low-value-adding blue-collar employment in the manufacturing sector[156]. Third, governments and policymakers of economies lagging behind the 'technological frontier' (in particular Europe and Canada) saw FDI as an opportunity to import more advanced technology and managerial skills, especially if foreign MNCs cooperated with local companies through joint venture arrangements. However, despite these perceived benefits, governments remained sceptical of FDI.

[155] Even though research has shown that due to MNCs' higher propensity to import the net effect of increased FDI on the balance of payments is close to zero. See Graham and Krugman 1989.
[156] Again, research has demonstrated that MNCs propensity to import in reality largely annuls the net employment effect by reducing the number of jobs in supplier industries. See Ibid.

Three concerns were highlighted in particular: First, it was very widely seen as a problem if the major strategic decisions of local businesses were taken abroad. It was feared that foreign executives would ignore the development needs of host economies and instead act entirely in their own interest or even in the interest of their home country government (for example, by limiting FDI to the low-value added production processes while keeping the high-value adding activities at home). Second, the competition from MNCs was not always welcome, especially when the latter were perceived to hold 'unfair' advantages over domestic rivals (such as asymmetric financial power, economies of scale, oligopolistic market positions, etc.). It was feared that rather than increasing the productivity of indigenous firms, competition from MNCs may overwhelm and destroy them, leading to industrial 'truncation' and ever increasing dependence on foreign technologies. Third, most countries attempted to protect 'national security' and 'national culture' by restricting FDI into specific sectors (e.g. defense industry, domestic transportation, energy, telecommunications, radio and television stations, newspapers, etc.).

Not surprisingly, the ambiguous perception of inward FDI was accompanied by ambiguous policies. Partly because of the perceived positive economic effects of FDI, partly because of the acknowledgment that a more protectionist policy would be self-defeating and counterproductive, most advanced industrial economies refrained from strongly restrictive policies[157] and approved or chose to ignore the majority of FDI projects. Yet, governments, policymakers and publics alike were far from

[157] Unlike many developing country governments

enthusiastic about these contributions to their economy. The general policy stance in this period may thus be best described as 'reluctantly permissive'. From the late 1970s onwards, this started to change as FDI was gradually perceived in a more favourable light. In particular, the neoliberal narrative that emerged in the late 1970s, strongly embraced the free flow of capital[158] and, as a corollary of this general principle, portrayed inward FDI as a positive economic force that enhances competition and thereby the productivity and efficiency of domestic industries. Accordingly, the narrative advocated for a 'neutral' FDI policy, which does not discriminate against foreign firms. But it still considered inward FDI as only a 'means to an end' (that is, to improve the efficiency of national firms and industries) and it did not generally advocate for national governments to actively attract inward FDI. These important evolutions only unfolded in the 1990s, as the next chapter will elaborate.

[158] Cf. Abdelal, *Capital Rules: The Construction of Global Finance*; Chwieroth, *Capital Ideas: The Imf and the Rise of Financial Liberalization*.

Chapter 3 . FDI AS AN END: THE 'CUTTING EDGE OF GLOBALIZATION', 1990-2007

"Raymond Vernon (…) observed in 1977 (…) that 'the multinational enterprise has come to be seen as the embodiment of almost anything disconcerting about modern industrial society.' Yet now it is only a slight exaggeration to say that it is seen as the reverse, as the embodiment of modernity and the prospect of wealth: full of technology, rich in capital, replete with skilled jobs. Governments all around the world (…) are queuing up to attract multinationals."

The Economist, 27 March 1993[1]

As discussed in the preceding chapter, government attitudes towards FDI inflows began to gradually warm up in the 1980s when the meaning and significance of FDI inflows in dominant policy discourses started being sketched in a notably more favourable light. Rather than as a threat to the development of national industries, the neoliberal narrative portrayed FDI inflows as a useful economic means that has the potential to strengthen national industries by exposing them to international competition. In the early 1990s, the rise to prominence of the globalization narrative led to a further shift towards an even more favourable evaluation of the meaning of inward FDI. Proclaiming the growing economic irrelevance of national boundaries, the narrative essentially portrayed the world economy as a system consisting of 'nationality-less' globally mobile multinational companies and national territories that can serve as their preferred locations of production. Within this logic, inward

[1] "Back in Fashion," *The Economist*, 27 March 1993.

FDI were re-conceptualized as a crucial driver of nations' economic prosperity. In brief, it was argued – and soon taken for granted – that FDI inflows were at the same time an important cause as well as an outcome of a country's national *competitiveness*. Thereby, the globalization narrative firmly defined FDI inflows as an inherently 'good' and highly desirable economic object; that is, a macroeconomic end in and of itself.

The profundity of these transformations was reflected in an article published in *The Economist* in 2001, which described these developments as follows:

> "Foreign direct investment is 'globalisation' in its most potent form. (…) Economists and governments agree these days on the crucial importance of foreign direct investment. They see it both as the global market's 'seal of approval' on a country's policies and prospects, and as a force, especially in developing countries, for far-reaching economic change. This consensus is surprising when you remember that FDI remains politically sensitive in many poor, and some not-so-poor, countries. But the benefits are so great that reservations on this account have been put aside. The point about FDI is that it is far more than mere 'capital': it is a uniquely potent bundle of capital, contracts, and managerial and technological knowledge. It is the cutting edge of globalisation."[2]

This 'new consensus' about the meaning of inward FDI was strongly mirrored in the evolution of FDI policies during the same period. Throughout the 1990s and early 2000s, countries around the world proceeded to cut regulatory restrictions on FDI inflows and at the same time started to create increasingly ambitious programs of investment *promotion* and *attraction*. The focus of FDI policy thus clearly moved away from attempts to develop regulatory instruments aimed at minimizing the

[2] "The Cutting Edge," *The Economist*, 24 February 2001.

negative effects of MNCs and shifted instead towards the development of policies aimed at attracting them. Indeed, this policy shift was so pronounced that the main areas of debate in FDI policy soon centred not anymore on debating the benefits and costs of inward FDI, but on how to avoid the escalation of inter-governmental incentives 'bidding wars' for foreign investors[3]. At the same time, although attitudes towards inward FDI of mass publics did not quite embrace the same enthusiasm for inward FDI as this 'new consensus' among policy experts suggests, they did clearly become more favourable too and, maybe most importantly, allowed the rapidly increasing levels of inward FDI and foreign economic ownership to gradually turn into an uncontroversial political 'non-issue'.

The present chapter will elaborate these developments in some more detail. It will first give a brief overview of some of the most important evolutions in the nature and broad patterns of global FDI flows in the 1990s and early 2000s. Then it will proceed to further develop the transformation of the predominant social representation of inward FDI in the early 1990s and provide a summary overview of its resonance in the USA, UK, France, Germany, Canada and Japan.

GLOBAL TRENDS

In a historical perspective, the increases in global FDI flows observed throughout the 1990s and 2000s are astonishing: Average annual global FDI flows have grown no

[3] One high-level IMF economist observed: "Interestingly, despite declining in policy respectability, the analytical case for performance requirements has not disappeared … The policy pendulum, however, has swung to the other end. The concern now is with excessive subsidies to attract foreign investors." See Ashoka Mody, *Foreign Direct Investment and the World Economy* (London and New York: Routledge, 2007), 20.

less than ten-fold between the six-year periods of 1985-1990 and 2005-2010 from 0.14 to 1.5 trillion current USD[4]. Furthermore, estimates of total assets, value added, the number of people employed or total sales of foreign affiliates all point in the same direction, confirming this notable increase in the importance of foreign direct investments in the global economy[5], with a variety of indicators suggesting that the operations of foreign affiliates account for no less than one third of total production in the present-day world economy.

Compared to the global patterns in the 1960s and 1970s, this dramatic growth in global FDI flows has been characterized by several important transformations. In terms of economic geography, the source and recipient countries of global FDI flows have become increasingly diverse. As Figure 3.1 illustrates, FDI inflows had traditionally been strongly concentrated in developed economies. From the early 1970s (from when the data is available) until the 2000s, advanced economies accounted for more than half and up to 85 percent of annual global FDI inflows, with a majority going to only the six largest advanced economies[6]. Emerging and developing economies normally received less than a third of global FDI inflows and

[4] Own calculations based on UNCTAD Stat database. Period-averages are more meaningful indicators than annual levels because they are less sensitive to short-term volatilities.

[5] Cf. UNCTAD's World Investment Reports (various issues). For a further discussion of the importance to distinguish between these measures see Robert E. Lipsey, "Foreign Direct Investment and the Operations of Multinational Firms: Concepts, History, and Data," *NBER Working Paper Series* No. 8665(2001); Robert C. Feenstra et al., "Report on the State of Available Data for the Study of International Trade and Foreign Direct Investment," ibid.No. 16254(2010); Robert E. Lipsey, "Measuring the Location of Production in a World of Intangible Productive Assets, Fdi, and Intrafirm Trade," *Review of Income and Wealth* 56(2010); Andrew Kerner, "What We Talk About When We Talk About Foreign Direct Investment," *International Studies Quarterly* 58, no. 4 (2014).

[6] Other important recipients of inward FDI were Belgium and Luxembourg, Spain, and the Netherlands, and from the 1990s increasingly China. Table A-3.1 in the appendix shows that only seven countries (USA, China, UK, Belgium and Luxembourg, France, Germany and Canada) account for 50 percent of the cumulative total FDI inflows from 1970 to 2013. A total of 20 countries (the seven plus Spain, the Netherlands, Brazil, Singapore, Australia, Russia, the British Virgin Islands, Mexico, Sweden, Italy, India, Switzerland and Ireland) account for more than 75% of all global FDI flows since 1970.

their share decreased sharply after the debt crises of the 1980s as well as the financial crises in emerging markets in the late 1990s. Moreover, about half of FDI going to developing economies was absorbed by only four countries: China (including Hong Kong), Brazil, Mexico and Singapore[7]. In the aftermath of the Global Financial Crisis of 2007-09 these patterns started to change notably and the share of FDI flows going to developed economies fell below 50 per cent[8]. At the same time, multinational companies from emerging markets, and especially from China, started to internationalize their value chains, leading to similarly strong increases in outward FDI from developing economies[9].

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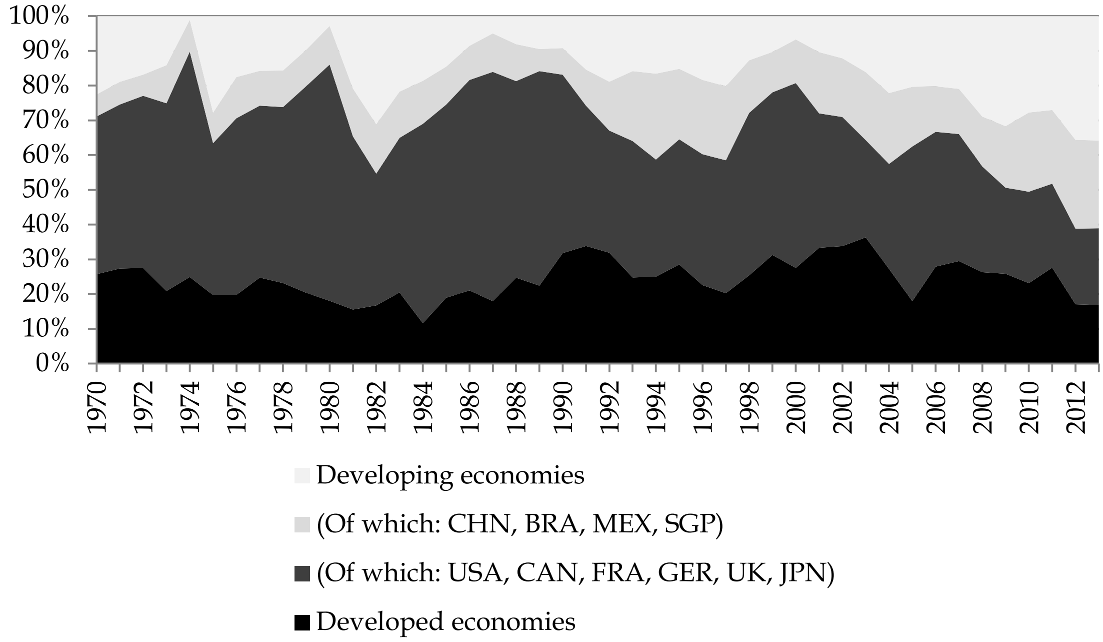
[7] The strong increases of FDI inflows into other developing economies in the 2000s went primarily to Russia, India and the British Virgin Islands (holding company FDI).

[8] Note, however, that a non-negligble part of the FDI going to developing economies in the late 2000s is accounted for by developing country tax havens such as the British Virgin Islands (which accounted alone for more than 6 per cent of global FDI inflows in 2013), the Cayman Islands, Barbados or Bermuda. Cf. Lipsey, "Measuring the Location of Production in a World of Intangible Productive Assets, Fdi, and Intrafirm Trade," 103.

[9] The global share of outward FDI from developed economies decreased from 95 per cent in 1990 and 88 per cent in 2000 to as little as 61 per cent in 2013 (UNCTAD Stat database). On emerging market multinationals, see Ravi Ramamurti and Jitendra V. Singh, *Emerging Multinationals in Emerging Markets* (Cambridge, UK; New York: Cambridge University Press, 2009); Mauro F. Guillen and Esteban Garcia-Canal, "The American Model of the Multinational Firm and the "New" Multinationals from Emerging Economies," *Academy of Management Perspectives* 23, no. 2 (2009); Ravi Ramamurti, "What Is Really Different About Emerging Market Multinationals?," *Global Strategy Journal* 2, no. 1 (2012).

Figure 3.1. The share of total annual FDI flows going to developed and developing economies, 1970-2013



SOURCE: Own calculations, based on UNCTAD Stats database. **NOTE:** The principal countries accounting for sharp increase in FDI going to developing economies in the late 2000s are: Russia, India and the British Virgin Islands.

At the same time, patterns of global FDI patterns also reflect important changes in production processes and company strategies that underlie them. The most common view of an FDI flow typically purports a manufacturing company from country A establishing a factory in country B. While these forms of international investment flows certainly do exist in large numbers, this type of 'classical' FDI accounts for a gradually decreasing share of total global FDI flows. Especially over the last two decades, the patterns of global FDI flows have become increasingly complex. Today, a majority of FDI flows are not in manufacturing but in the service sector, a very substantial part is based on the acquisition of existing firms rather than the establishment of new plants or offices (so-called 'greenfield' investments), and an ever increasing share of international financial flows that are officially counted as 'FDI' are in fact monetary transactions channelled through holding companies in low-tax jurisdictions, which involve little or no industrial activity.

To assess the degree of the sectoral shifts in global FDI, Figure 3.2 shows the estimated percentage of the sectoral FDI stock as a share of the total FDI stock in developed and developing economies in 1990 and 2012. It illustrates that - in developed as well as developing economies - the share of the FDI stock in the services sector has indeed increased strongly, while the share of FDI going into manufacturing industries has decreased. In part, this sectoral shift is a natural reflection of the growing importance of the service sector in the global economy in general. Yet, Figure 3.2 equally shows that in both developed and developing economies the share of FDI going into the service sector has also increased more rapidly than the average contribution of the service sector to GDP (the latter is indicated by the black lines in Figure 3.2)[10]; presumably, a phenomenon that was driven primarily by the privatization of state-owned services industries on the one hand[11] and the global liberalization of finance on the other[12]. At the same time, despite this notable internationalization of the service industries in recent years,

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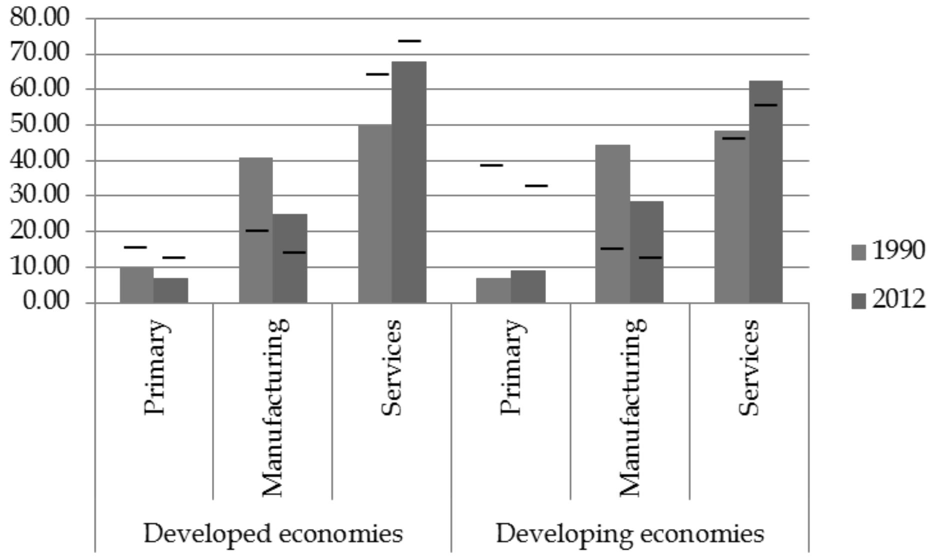
[10] For example: From 1990 to 2012, the share of the FDI stock in developed economies going to the service sector increased by 18 per cent (from 50 to 68 per cent), even though the value added to GDP by the service sector increased by only 10 per cent in the same period (from 64 to 74 per cent). In developing economies, the share of the FDI stock in service industries increased by 15 per cent (from 48 to 63), even though the increase of services as a share of GDP was only of 9 per cent (from 47 to 56).

[11] As many services are difficult to trade, FDI is essential for many service companies to access markets.

[12] About one third (5.4 trillion USD) of the total FDI stock in services, estimated to have reached close to 15 trillion USD in 2012, is accounted for by the finance industry (4.5 trillion by business activities, 2.1 trillion in trading industries, about 1.5 trillion in transport, storage and communications, and the remainder in a variety of other service sectors). See UNCTAD, *World Investment Report 2014: Investing in the Sdgs: An Action Plan* (New York and Geneva: United Nations, 2014), Web appendix table 24.

Figure 3.2 also illustrates that it does not yet reach the degrees of internationalization that are observed in the manufacturing industries[13].

Figure 3.2. The estimated sectoral share of the total inward FDI stock compared to the sectoral share of GDP in developed and developing economies in 1990 and 2012



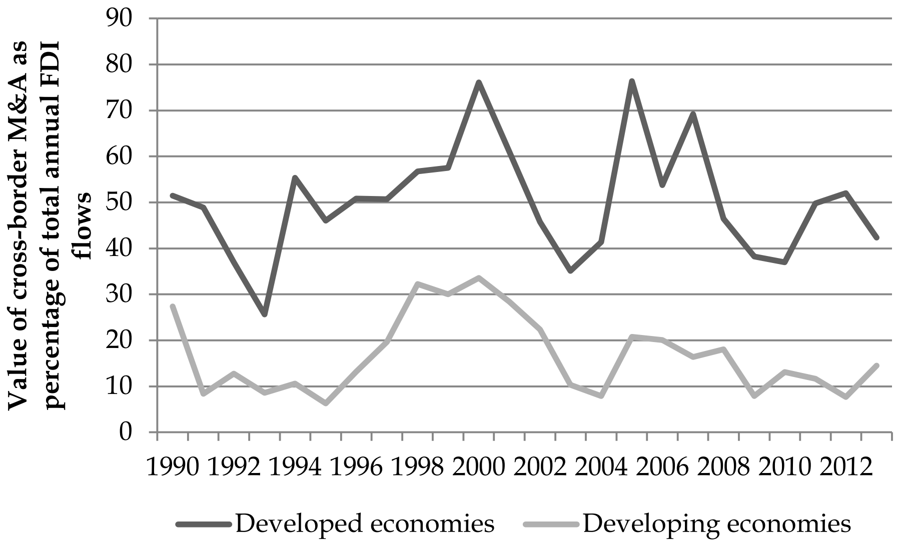
SOURCE: Sectoral share of FDI stock: Own calculations, based on UNCTAD WIR 2014, web annex table 24; Sectoral share of GDP: Own calculations based on WBDI database. NOTE: Black lines indicate the approximate share of value added to GDP of each sector in the same year. If the share of the sectoral FDI stock is higher than the average value added to GDP by this sector, it indicates that a sector is relatively internationalized.

A closely related phenomenon are the very large volumes of cross-border mergers and acquisitions (M&A) in the 1990s and 2000s. Figure 3.3, which shows the annual value of sales in cross-border M&A transactions as a percentage of the value of

[13] For example: The figure shows that even though the manufacturing industries in developed economies contributed on average less than 20 per cent to national GDP in 1990, more than 40 per cent of the total FDI stock in developed economies was in manufacturing; in contrast, even though the primary sector in developing economies contributed close to 40 per cent of GDP in 1990, less than 10 per cent of the FDI stock was in that sector, etc.

annual FDI inflows for developed and developing economies[14], illustrates that cross-border acquisitions can account for more than half of inward FDI flows to developed economies, in particular during the M&A waves of the 1990s and early 2000s. In comparison, M&A was somewhat less important in developing economies where it accounted for between 10 and 30 percent of total FDI inflows.

Figure 3.3. The value of cross-border M&A sales as a percentage of the value of annual FDI inflows in developed and developing economies



SOURCE: UNCTAD World Investment Report 2014. Web Annex Tables 01 (FDI flows) and 09 (M&A).
NOTE: This graph is for illustration purposes only and has to be interpreted with caution; even though FDI and M&A are closely related, the estimates derive from different measurement methodologies (see Footnote 14).

Another important characteristic of the evolution of global FDI flows in the 1990s and 2000s are the increasingly complicated ownership chains that underlie them. In

[14] It is important to bear in mind that even though the values of FDI inflows and cross-border M&A sales are closely related, they are not exactly congruent. For example, reinvested earnings or intra-firm loans, which are counted as FDI, are not counted as M&A. In contrast, acquisitions of less than 10% of a company's total equity stock are not counted as FDI (UNCTAD, *World Investment Report 1996: Investment, Trade and International Policy Arrangements* (New York and Geneva: United Nations, 1996), 11.)

particular, inter- or intra-company capital flows to holding companies in tax havens – jurisdictions that offer very low withholding tax rates on dividends paid from subsidiaries to parent firms[15] – account for an ever growing share of global financial flows that are officially classified as 'FDI'. For example, a detailed analysis of US FDI has established that the share of US outward FDI that goes to holding companies in the first instance has increased from about 10 percent in 1982 to close to 50 percent (!) in 2013[16]. The ultimate goal and destination of so-called 'special purpose entity' (SPE) FDI is *a priori* unclear: they can be channelled towards a company in a third country, they can remain 'parked' in the tax haven jurisdiction for an extended period of time, or they can be re-routed to the country of origin. These developments imply that it has become increasingly difficult to track the actual purpose and origins and destinations of global FDI flows[17].

Finally, many scholars and commentators have argued that the gradual transition from a Fordist logic of industrial mass production to dynamics described as post-Fordist 'knowledge economies' have fostered changes in corporate strategies that have altered the type of economic activities that MNCs delegate to foreign affiliates.

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[15] The most important examples are the Netherlands, Luxembourg, the UK, Ireland, Switzerland, The British Virgin Islands, Bermuda and the Cayman Islands. Cf. Lipsey, "Measuring the Location of Production in a World of Intangible Productive Assets, Fdi, and Intrafirm Trade," S103; Ronen Palan, Richard Murphy, and Christian Chavagneux, *Tax Havens : How Globalization Really Works* (Ithaca, N.Y.: Cornell University Press, 2010).

[16] See Marilyn Ibarra-Caton and Raymond J. Mataloni, "Direct Investment Positions for 2013: Country and Industry Detail," ed. US Bureau of Economic Analysis, Survey of Current Business (Washington, DC2014), 7-8.

[17] See Alfons Weichenrieder and Jack Mintz, "What Determines the Use of Holding Companies and Ownership Chains?," *Oxford University Centre for Business Taxation Working Papers* 0803(2008); Lipsey, "Measuring the Location of Production in a World of Intangible Productive Assets, Fdi, and Intrafirm Trade." In some cases, data on employment, sales and value added by foreign affiliates may therefore be more meaningful indicators than FDI flows as such. Cf. Ibid; Kerner, "What We Talk About When We Talk About Foreign Direct Investment."

For example, Robert Reich[18] and Kenichi Ohmae[19] claim that in the late twentieth century MNCs have transformed from nationally embedded hierarchical command-and-control organizations[20] into decentralized knowledge-seeking “global webs”[21]. As a result, these scholars argue, the logic driving the internationalization of companies has changed too: while the traditional view of why companies expand abroad - summarized in Vernon and Well’s ‘product cycle theory’[22] - argued that companies develop new products primarily in their home market and then moved abroad when they start to lose their competitive advantage domestically due to the entry of new competitors, MNCs were now seen as pursuing truly *global* strategies in which they seek to acquire highly specialized knowledge and technology from around the world and to adapt the latter in order to meet very specific local tastes and demands[23]. Crucially for our purposes here, these views imply that MNCs increasingly delegate decision-making authority and high-value-adding R&D activities to foreign affiliates, thereby improving the *quality* of the economic activities that are captured as FDI statistics. Empirical research that has assessed the nature

[18] Reich, *The Work of Nations: Preparing Ourselves for 21st Century Capitalism*.
[19] Ohmae, *The Borderless World: Power and Strategy in the Interlinked Economy*.
[20] Who were “no different from the Roman Catholic Church’s approach to globalization … push[ing] their headquarters dogma through the system”, according to ibid., 8.
[21] Reich, *The Work of Nations: Preparing Ourselves for 21st Century Capitalism*, 131.
[22] Louis T. Wells, *The Product Life Cycle and International Trade* (Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1972); Raymond Vernon, "The Product Cycle Hypothesis in a New International Environment," *Oxford Bulletin of Economics and Statistics* 41, no. 4 (1979).
[23] In the process, MNCs, according to Reich, have increasingly become “façade[s], behind which teems an array of decentralized groups and subgroups continuously contracting with similarly diffuse working units all over the world”. Reich, *The Work of Nations: Preparing Ourselves for 21st Century Capitalism*, 82. Or, in the words of Kenichi Ohmae: “Contemporary global corporations are fundamentally different. They have to serve the needs of customer segments. Instead of educating the ‘barbarians’ to drink Coke or eat cornflakes, they have to discover the basic drinking and eating needs of people and serve these needs. Sometimes they come up with entirely new products and services that headquarters never dreamed of.”Ohmae, *The Borderless World: Power and Strategy in the Interlinked Economy*, 8-9.

and extent of these supposed transformations have, however, found that they are much less pronounced than business strategists initially suggested. On the one hand, 'global companies' are far less 'global' than one might think. For example, Alan Rugman's study found that in the 1990s over 80 per cent of the sales of the world's largest (and supposedly most highly internationalized) firms were still concentrated in their 'home regions'[24]. On the other hand, increases in R&D activities within foreign affiliates are also far less pronounced than the globalization narrative tends to suggest. For example, an influential study by John Cantwell showed that MNCs had already delegated some R&D activities to their affiliates in the 1960s and 1970s MNCs and that this phenomenon in fact increased only very slowly in the following decades[25]. Similarly, a more recent study by the US BEA found that in 2004 85 per cent of the total R&D expenditures by US MNCs were still accounted for by parent firms and only 15 per cent by foreign affiliates even though the latter accounted for 27 per cent of companies' total value added[26]. Compared to 1994, these figures corresponded to a 3 per cent increase in both R&D as well as total value added by foreign affiliates[27]. As a whole, the evidence thus seems to suggest that the growing internationalization of MNC operations is a real trend, but that the extent of this change is much more modest than it is frequently assumed.

[24] Rugman, *The Regional Multinationals : Mnes and "Global" Strategic Management*.
[25] Cantwell, "The Globalisation of Technology: What Remains of the Product Cycle Model?," 156.
[26] Daniel R. Yorgason, "Research and Development Activities of U.S. Multinational Companies: Preliminary Results from the 2004 Benchmark Survey," *Survey of Current Business* (2007): 23.
[27] Ibid., 24.

In sum, the patterns and nature of global FDI flows in the late twentieth century have experienced a number of transformations: the absolute levels of global FDI have increased sharply; the source and recipient economies have become increasingly diversified; the main focus of FDI activity has moved away from the manufacturing sector, involving a greater role of M&As in the services sector and strong increases in SPE FDI instead; and a slightly growing component of global FDI involve some R&D activities. While these changes are important, the simultaneous transformations in the predominant social representation of inward FDI were much more sweeping, as the subsequent section will elaborate.

FROM THE REGULATION TO THE ATTRACTION OF INWARD FDI, 1992-2007

Although the structural transformations in the world economy and international business in the late twentieth century were certainly very 'real', the globalization narrative that rose to prominence in the early 1990s interpreted these changes and their consequences in a very specific - and in some sense peculiar - way. As discussed in Chapter 1, the proponents of the globalization narrative argued that the relationships between national economies and the world economy had transformed fundamentally and that the priorities for national economic development were increasingly subjected to the imperatives of the global economy. As I will elaborate below, the logic of this narrative encouraged a process of social reconstruction of the predominant social representation of inward FDI in relevant policy (as well as academic) discourses. Rather than as a threat for the development of national industries – as in the statism narrative – or as a force fostering the efficiency of *national* firms – as in the neoliberalist narrative -, this new conceptualization of FDI inflows portrayed them as the *embodiment of a nation's economic 'competitiveness'*. At the same time, this remarkable transformation of the predominant perceptions of FDI inflows from an economic 'problem' into a source and symbol of economic competitiveness was accompanied by notable changes in government attitudes and policies towards foreign multinationals.

As two FDI policy experts observed in the early 1990s:

> "[A] fundamental reorientation of the role of government appears to be occurring, one that changes MNE-state relations *from confrontation to co-operation*. States now see the creation of domestic competitive advantage as a pressing national policy goal, and state regulation of MNEs is increasingly being driven by the competitiveness agenda."[28]

Similarly, John Dunning, pioneer and unofficial dean of scholarly research on FDI, argued that

> "… the increasing need to be competitive in global markets (…) has become a major catalyst for action (…) [which] has led governments (…) to reconsider the factors influencing the competitiveness of their own resources and competencies; and to judge the contribution of MNEs in this light."[29]

Crucially, the context and logic of the globalization and competitiveness narrative assigned a very powerful *symbolic* message to FDI inflows: namely, that they

[28] Lorraine Eden and Evan H. Potter, "Introduction," in *Multinationals in the Global Political Economy* (New York: St. Martin's Press, 1993).[emphases added]
[29] John H. Dunning, "Governments and Multinational Enterprises: From Confrontation to Co-Operation?," in *Multinationals in the Global Political Economy*, ed. Lorraine Eden and Evan H. Potter (New York: St. Martin's Press, 1993), 70.

represent a “vote of confidence”[30] or “seal of approval”[31] of a nation’s economic policies and prospects by global markets (or, in reverse, that the absence of FDI is a sign to worry and a reason for ‘disappointment’[32] or even ‘embarrassment’[33]) and that they thus serve as a useful proxy indicating the economic success of national economies *per se*. The reasoning underlying these views is well summarized in the following passage:

> “In the supposedly new world of global competition in which we now live, places as well as firms must, so we are told, become ‘competitive’. Places are no different from other commodities, and their value therefore depends on how consumers and investors – those with money to spend – rank them against their competitors. In this game, attracting inward investment can be both an instrument and an indication of success. ‘Competitive’ places are defined as those that can attract FDI, and FDI in turn is said to make places more ‘competitive’ (…) To achieve these benefits aspiring recipient areas should (so the story continues) enhance their ability to attract and embed FDI.”[34]

Thereby, FDI inflows were reconceptualised at the same time as a “prime instrument for national governments to leverage their competitiveness”[35] and “perhaps the

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[30] “[I]nbound FDI expresses a vote of confidence on the part of the foreign investor in the openness of the economy concerned”. See Alex Jacquemin and Lucio R. Pench, *Europe Competing in the Global Economy : Reports of the Competitiveness Advisory Group*, ed. Group European Commission. Competitiveness Advisory (Cheltenham, UK and Lyme, NH: E. Elgar, 1997).
[31] "The Cutting Edge."
[32] For example: “By most measures, India’s economy is a disappointment. The country receives a paltry $3 billion a year in foreign direct investment, only a fraction of the money going into China and Mexico (…)”, in "Which Way to Capitalism?," *The Economist*, 30 May 1998.
[33] For example: “A corrupt judiciary must be reformed if embarrassingly meagre foreign direct investment and hoped-for privatisations are to take off (in 2003, FDI per person in Turkey was worth a mere $8, compared with $244 in Hungary and $110 in Poland)”. See "Babacan's Miracle," *The Economist*, 22 January 2005.
[34] John Lovering, "Mncs and Wannabes - Inward Investment, Discourses of Regional Development, and the Regional Service Class," in *The New Competition for Inward Investment: Companies, Institutions and Territorial Development*, ed. Nicholas A. Phelps and Philip Raines (Edward Elgar, 2003), 41-42.
[35] Thomas C. Lawton and Michael Hodges, "Promoting Competitiveness: Inward Investment Incentives and Enterprise Policy," in *European Industrial Policy and Competitiveness: Concepts and Instruments*, ed. Thomas C. Lawton (Basingstoke and New York: St. Martin's Press, 1999), 207.

ultimate benchmark of competitiveness"[36]; that is, a *cause* as well as an *outcome* of national economic success. As such, FDI inflows –rather than as a risk to be managed – were re-defined as being "*vital* to strengthening the ability of [national] economies to compete in global markets"[37].

A similar simultaneous transformation is mirrored in scholarly research on FDI. From a focus on the balance of payments and employment effects of inward FDI, research on FDI in international economics in the 1990s started to focus increasingly on its *qualitative* benefits, "such as the transfer of new technologies, skills, business practices, and production approaches"[38], which came to be summarized as the idea of *positive spillovers*[39]. Interestingly, despite the concept's theoretical appeal, the findings of empirical research attempting to identify the existence and size of these spillover effects are highly inconclusive[40]. A meta-analysis of these studies[41] suggests that the existence of any spillover effects and whether they are in fact positive rather than negative greatly depends on the stage of economic development and the presence of *absorptive capacities* in recipient economies. The pronounced

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[36] Ibid., 207-09.
[37] Oman, *Policy Competition for Foreign Direct Investment: A Study of Competition among Governments to Attract Fdi*, 7.[emphasis added]
[38] Ross Brown and Philip Raines, "The Changing Nature of Foreign Investment Policy in Europe: From Promotion to Management," in *Regions, Globalization, and the Knowledge-Based Economy*, ed. John H. Dunning (Oxford: Oxford University Press, 2002), 442.
[39] The notion of 'spillovers' captures the idea that inward FDI has a positive effect on the productivity of the local economy by creating more competition in local industries through the introduction of new production methods ('horizontal' spillovers) and forcing the supplier industries to upgrade to the demands of globally successful companies ('vertical' spillovers).
[40] Holger Goerg, an economist and leading expert on FDI, wrote in 2010: "Governments around the globe try actively to attract multinationals to locate in their country, assuming that these companies bring large benefits. Yet, when it comes to empirically verifying whether such positive effects on host countries actually exist, and what there [sic] magnitude may be, one quickly realizes that not much is known". See Foreword in Concepcion Latorre, *Impact of Foreign-Owned Companies on Host Economies : A Computable General Equilibrium Approach* (Hauppauge, NY: Nova Science Publishers, Inc, 2012), i.
[41] Meyer and Sinani, "When and Where Does Foreign Direct Investment Generate Positive Spillovers? A Meta-Analysis."

contrast between the mixed and ambivalent findings of the economics discipline on the effects of inward FDI on the one hand and the nearly unanimous enthusiasm of policymakers for the attraction of the latter on the other is indeed somewhat puzzling. In a review essay, two leading FDI economists interpreted this gap as suggestive evidence that policymakers must somehow have witnessed certain positive effects of FDI, which are not captured by their empirical tests[42]. A simpler – but possibly more plausible – explanation is that policymakers are in fact less interested in the robustness of empirical findings than academic economists may wish for and are instead more sensitive to the normative and symbolic values transmitted by policy narratives, as suggested in Chapter 1.

At the same time, the profound changes in the understanding of inward FDI are also strongly reflected in the policies towards MNCs that countries pursued in the 1990s and early 2000s. In contrast to the statist period in which the focus of inward FDI policy was on how to best *regulate* MNCs in order to minimize their negative impacts and the 'neutral' approach suggested by the neoliberal narrative, the focus of FDI policy in the 1990s clearly shifted towards how to *attract* and *retain* foreign subsidiaries. While FDI inflows had been primarily seen as an economic *challenge* demanding industrial policy actions in order to enhance the ability of domestic firms to compete with their foreign competitors, they were now reconstructed as a central *constitutive component* of any strategy for a national 'industrial' – or what was now

[42] Robert E. Lipsey and Fredrik Sjoeholm, "The Impact of Inward Fdi on Host Countries: Why Such Different Answers?," in *Does Foreign Direct Investment Promote Development?*, ed. Theodore H. Moran, Magnus Blomstrom, and Edward M. Graham (Washington, D.C.: Institute for International Economics, 2005), 41.

preferably called 'competitiveness' - policy[43]. The impact of this redefinition of FDI inflows as a highly desirable economic object on the behaviour of states can be observed most readily in two dimensions: On the one hand, as the evolution of the OECD FDI regulatory restrictiveness index[44] presented in Figure 3.4 shows, all of the major advanced economies continued liberalizing their FDI regimes throughout the 1990s and early 2000s. On the other hand, they simultaneously established and/or significantly expanded upon existing investment promotion and attraction programs; efforts, which one leading expert described simply as "the new approach"[45] in national FDI policy[46].

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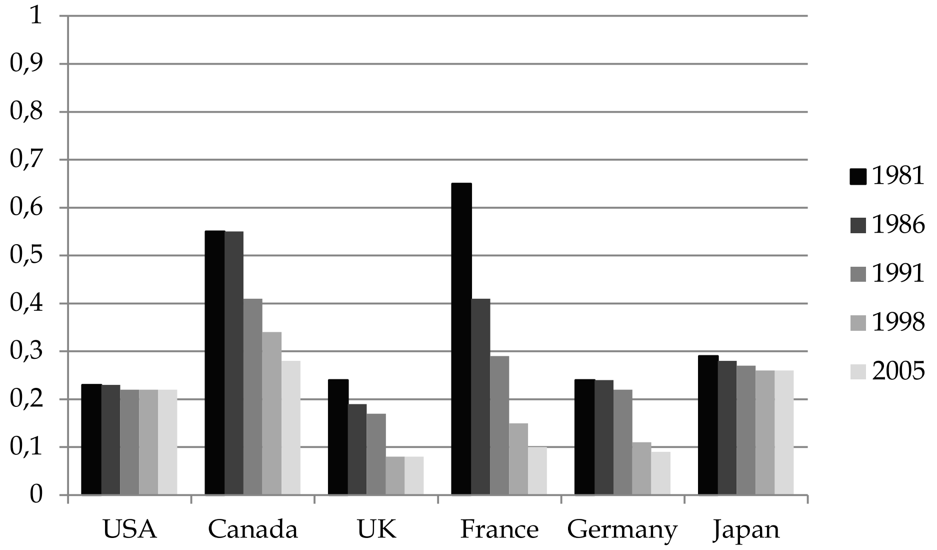
[43] See Robert Pearce, "Industrial Policy, Mnes and National Technology," in *Global Competition and Technology: Essays in the Creation and Application Knowledge by Multinationals*, ed. Robert Pearce (Houndsmills, Basingstoke, UK: MacMillan Press Ltd, 1997); Ana Teresa Tavares and Stephen Young, "Fdi and Multinationals: Patterns, Impacts and Policies," *International Journal of the Economics of Business* 12, no. 1 (2005).

[44] The index takes four dimensions of FDI restrictions into account: Foreign equity limitations, screening or approval mechanisms, employment restrictions, operational restrictions. 1 means highest levels of restrictions, 0 means no restrictions. See OECD, "Fdi Regulatory Restrictiveness Index," http://www.oecd.org/investment/fdiindex.htm.

[45] Edward Safarian, "Host Country Policies Towards Inward Foreign Direct Investment in the 1950s and 1990s," *Transnational Corporations* 8, no. 2 (1999): 108.

[46] Which focuses on how "to improve the country-specific capabilities which attract and retain the increasingly mobile firm-specific intangible assets" rather than on the regulation of inward FDI. Ibid.

Figure 3.4. The evolution of the OECD FDI restrictiveness index for the six major advanced economies over time



SOURCE: Golub and Koyama (2006)[47]

Certainly, some countries and especially regional governments had pursued policies to attract FDI for a longer time[48]. However, both the number of government bodies pursuing FDI attraction policies[49] as well as the amount of financial resources they spent to attract FDI increased to unprecedented scales in the 1990s and 2000s[50] (irrespectively of the serious doubts surrounding the effectiveness of such policies[51]). In the words of John Lovering, policymakers' enthusiasm for inward FDI was so

[47] Stephen Golub and Takeshi Koyama, "Oecd's Fdi Regulatory Restrictiveness Index: Revision and Extension to More Economies," *OECD Working Paper Series* (2006).
[48] For example, Singapore, Ireland, Israel and some US states.
[49] "Although very few investments received location incentives in the 1960s, such incentives are extremely common today." Thomas, *Competing for Capital*, 3. Similarly, while only a handful of countries had a national Investment Promotion Agency in 1980, more than 170 existed in 2012.
[50] For example, an OECD study found that the number of US states offering incentives as well as the number of programmes in each state both roughly doubled from 1977 to 1996. In the case of Alabama (the only state for which such data was available), the estimated cost of the incentives granted per job created rose from about $4,000 in the late 1970s to $168,000 (!) in the early 1990s. See Oman, *Policy Competition for Foreign Direct Investment: A Study of Competition among Governments to Attract Fdi*, 58 ff.
[51] Cf. Tavares and Young, "Fdi and Multinationals: Patterns, Impacts and Policies," 4.

great that "[t]he corridors of the regional economic governance ring to peans of praise for inward investment, and a large FDI 'catch' is likely to be lavishly celebrated in the local media, and the press releases of development agencies, companies, and politicians."[52] Tellingly for the extent of this change, by the late 1990s dominant debates about FDI policy had shifted away from whether to restrict or regulate MNCs to how to avoid 'bidding wars' among governments to attract MNCs[53]. The following sections will very briefly describe these evolutions in some more detail for the six large advanced economies that are at the focus of this overview.

United States: The Dogs Don't Bark

More than in other countries, the US national governments' approach to FDI policy in the 1990s and 2000s focused primarily on the creation of a liberal *international* investment regime. Accordingly, with regards to *inward* FDI, the priority of the presidential administrations of Bush Sr., Clinton and Bush Jr. was to uphold the principles of national treatment and non-discrimination for foreign investors[54]. As suggested by the OECD index (see Figure 3.4), the USA left its generally liberal FDI

[52] Lovering, "Mncs and Wannabes - Inward Investment, Discourses of Regional Development, and the Regional Service Class," 42-43.
[53] See, for example, Mody, *Foreign Direct Investment and the World Economy*; Oman, *Policy Competition for Foreign Direct Investment: A Study of Competition among Governments to Attract Fdi*; Thomas, *Competing for Capital*. Or as observed by Tavares and Teixeira: "Multinational firms are sought after (literally chased) by nearly all countries nowadays." Ana Teresa Tavares and Aurora Teixeira, *Multinationals, Clusters and Innovation : Does Public Policy Matter?* (Basingstoke and New York: Palgrave Macmillan, 2006), 1.
[54] Nicholas A. Phelps and Philip Raines, *The New Competition for Inward Investment: Companies, Institutions and Territorial Development* (Cheltenham, UK and Northampton, MA, USA: Edward Elgar, 2003), 62.

laws[55] largely unchanged throughout the 1990s and 2000s. At the same time, in comparison to most other countries, the *national* government was less active in the promotion of inward FDI[56]. Instead, state-level governments pursued increasingly aggressive strategies in this area and the federal government passively played an important role through its choice – unlike the EC - *not* to impose any institutional constraints on the ensuing FDI incentives 'bidding wars' among local governments[57]. Even though some US states had started to promote inward investment from abroad as early as the 1970s, the scale and scope of investment promotion expanded dramatically throughout the 1990s[58] and public spending on investment incentives reached as much as US$46.8 billion in 2005 alone (roughly three times as much as the comparable total expenses within the EU)[59].

During the same period, the FDI stock in the US economy grew at unprecedented speed from less than 9 percent of GDP (or 539 billion current USD) in 1990 to over 24 percent of GDP (or 3551 billion current USD) in 2007. The most remarkable aspect about these breath-taking developments from a political perspective is the fact that it was largely ignored by most political actors. While the comparatively insignificant

[55] The laws generally aim to guarantee foreign investors' 'national treatment', while allowing three types of exceptions: 1) reciprocity conditions (for example in finance, insurance, air and maritime transport); 2) some general restrictions in sectors perceived as 'sensitive' such as telecommunications, TV and radio, nuclear energy, etc.; 3) the 'Exon-Florio' provision allowing the President to review (and, if necessary, block) any foreign investment on the grounds of 'national security' (such presidential vetoes have, however, been extremely rare; see OECD, *Oecd Reveiws of Foreign Direct Investment: United States* (Paris: Organisation for Economic Co-operation and Development, 1995), 54.)
[56] It established the first national Investment Promotion Agency *Invest in America,* later renamed *Select USA,* only in March 2007. The official reason for its creation was to "promote American competitiveness". See WTO, "Trade Policy Reviews," (World Trade Organization). WT/TPR/S/275, 13 November 2012:4)ii)33).
[57] Thomas, *Investment Incentives and the Global Competition for Capital*.
[58] Cf. OECD, *Oecd Reveiws of Foreign Direct Investment: United States*, 50; Oman, *Policy Competition for Foreign Direct Investment: A Study of Competition among Governments to Attract Fdi*; Thomas, *Competing for Capital*; *Investment Incentives and the Global Competition for Capital*.
[59] *Competing for Capital; Investment Incentives and the Global Competition for Capital*.

increases in FDI in the 1970s and 1980s had led to heated political debates and legislative initiatives (see Chapter 2), opposition to the much greater increases in FDI inflows in the 1990s was barely hearable; a fact that *The Economist* alluded to in the following way: "If the most urgent question for Republicans in 1998 was why there was so little outrage about Bill Clinton's morals, the most urgent question for protectionists was why there was so little outrage about the surge in foreign takeovers of American companies."[60] Arguably, an important reason for this curious non-event is the profound transformation in the social representation of inward FDI described above, which one expert writing on US FDI policy in this context summarized as "the discursive 'naturalization' of inward investment [as the] route to economic prosperity"[61]. The reconceptualization of inward FDI thus seemed having cut off – at least for some time[62] – the winds from protectionist sailing boats through the redefinition of FDI as an inherently desirable and thus politically uncontroversial economic object.

Europe: A Foreign Affair

Similar developments could also be observed in Europe where restrictions on inward investments were gradually removed, while investment promotion efforts

[60] "Trial by Prosperity," *The Economist*, 2 January 1999.
[61] Andrew Wood, "The Politics of Orchestrating Inward Investment: Institutions, Policy and Practice in the Industrial Midwest," in *The New Competition for Inward Investment: Companies Institutions and Territorial Development*, ed. Nicholas A. Phelps and Philip Raines (Cheltenham, UK and Northampton, MA, USA: Edward Elgar, 2003), 89.
[62] Some political controversies re-emerged in the mid-2000s, in particular around investment from China. See also the brief discussion of these developments in the Conclusions chapter.

were scaled up significantly[63]. Yet, compared to the dynamics in the USA, the unfolding of these events in Europe is also characterized by some nuanced differences. Most importantly, the EC played a key role in pushing member countries to liberalize their investment regimes while at the same time reducing the competitive pressures of incentives 'bidding wars'. The treaties of the European Union guarantee the principle of national treatment for EU firms in all EU member countries and furthermore generally prohibit the imposition of restrictions on capital movements (from member countries as well as third countries)[64]. Although most member states continue to have some sectoral limitations in industries perceived to be particularly 'sensitive' (e.g. energy sector, publishing and broadcasting or air transport) and some form of (hardly ever used) formal review mechanisms, these remaining restrictions are generally not substantive. As suggested by Figure 3.4, by the mid-2000s the three major European economies had removed nearly all formal restrictions on inward FDI as the restrictiveness indexes of Germany, France and the UK approached the lower bound of the index's scale[65]. At the same time, public spending on FDI attraction increased continually throughout the 1990s at the state as well as national levels. Nonetheless, in contrast to the USA, EC regulations on state

[63] Two experts observed a trend "throughout Western Europe (…) towards more positive and receptive attitudes towards the attraction of FDI". Brown and Raines, "The Changing Nature of Foreign Investment Policy in Europe: From Promotion to Management," 436.

[64] Art 63 in the Treaty on the Functioning of the European Union (TFEU) establishes these principles; Arts. 64-66 elaborate the possible exemptions under specific circumstances

[65] Importantly, in most countries foreign investors were also allowed to bid in the privatization processes of formerly state-owned companies

aid were effective in somewhat restraining the exacerbation of investment incentives 'bidding wars'[66].

As discussed in the preceding chapter, the UK government had been somewhat less concerned about FDI inflows than most of its peers in the post-war era. In the 1990s and 2000s it further embraced this general approach of openness toward foreign investment and subnational as well as the national government started to court foreign investors very actively. From levels which were already relatively high in international comparison, the UK's inward FDI stock increased further from roughly 20 percent of GDP (or 203 billion current USD) in 1990 to a remarkable 43 percent (or 1229 billion current USD) in 2007. While FDI inflows in the 1960s-80s had still stirred some political debate (cf. Chapter 5), such worries had now disappeared nearly completely. Instead, the predominant reception of increasing FDI flows among politicians and the financial press were nothing short of enthusiastic. They were described as "a boon to the British economy"[67], which "infect the competitive spirit"[68] and "ginger up the economy"[69]; both political parties reportedly "boasted"[70]

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[66] The EC regulations on 'state aid' generally prohibit the granting of incentives, which 'distort[s] intra-Community competition', but allow for exceptions in the interest of regional development (as well as some more specific sectoral exceptions, f.e. schemes for the support of SMEs, specific R&D activities, etc.). Accordingly, 'development areas' can grant investment incentives up to 'award rates' of a maximum of 20 per cent of the total value of the fixed assets of an investment projects, and for 'least favoured regions' up to 50 per cent. However, they are not allowed to discriminate between foreign and domestic investors, which should have the same access to state aid funds. In 2001, the total amounts of state aid (awarded to both foreign and domestic investors) ranged from a low of 0.66 per cent of GDP (UK) to a high of 1.58 per cent (Finland) of GDP. While good data on investment incentives granted to foreign investors is difficult to obtain, the authors of a WTO Trade Policy Review observed significant variations across countries, with Ireland being the most and Italy and Germany the least willing to subsidy foreign investments. Furthermore, competition seemed to be most intense for FDI projects in the automobile, electronics and pharmaceutical sectors. See WTO, "Trade Policy Reviews."WT/TPR/S/3, 30 June 1995. See alsoOman, *Policy Competition for Foreign Direct Investment: A Study of Competition among Governments to Attract Fdi*; Thomas, *Competing for Capital*; *Investment Incentives and the Global Competition for Capital*.

[67] "Britain's Many Options."

[68] "A Rentier Economy in Reverse," *The Economist*, 22 September 1990.

about the UK's success to attract FDI, which they interpreted as a "vote of confidence"[71] in the UK economy and even "a source of national pride"[72]. Accordingly, - in stark contrast to the policy discussions of the 1960s and 1970s focusing on how to reduce the reliance on inward FDI - in the 1990s and early 2000s the main concerns expressed about inward FDI now related overwhelmingly to the *risks of losing* FDI inflows (which became a particularly salient topic of debate surrounding the UK's decision not to join the EMU in the mid-1990s[73] and discussions about a first potential 'Brexit' in the early 2000s[74]).

Developments in France during the 1990s were similar, but - due to the exceptionally high degree of skepticism toward inward FDI that was predominant among French policymakers in previous decades – in some sense more dramatic[75]. As the OECD's FDI restrictiveness index in Figure 3.4 suggests, French FDI policy in the early 1980s was still highly restrictive. But under intense pressure from the EC, the investment regime was gradually liberalized after Mitterrand's turn to economic liberalism in the mid-1980s[76]. Remarkably, by 2005 France had established one of the most liberal investment regimes in the world. As in most other countries, this gradual removal of

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[69] "Down but Not Out," *The Economist*, 7 June 2003.
[70] "Still Coming In," *The Economist*, 22 January 2000.
[71] "Britain is currently a magnet for foreign investment. (…) This flow of money is widely seen as a vote of confidence in the British economy. Hence the *symbolic* importance of the government's announcement that foreign investment is still going up." See "Sunshine, with a Chance of Showers." [emphasis added]
[72] The full quote is: "When a British company invests in a new plant, it is a source of some satisfaction to the local MP whose constituency benefits. But if a foreign company opens a shiny new factory on these shores, it is a source of national pride and ministerial self-congratulation. Of all the enticing locations a footloose global capitalist might consider – from the Pearl River Delta to Northern Bohemia – they chose us! (…)" See "Foreign, Redirected Investment."
[73] "Ashdown on Europe," *The Economist*, 4 March 1995; "Britain's Many Options."
[74] "Economics Focus: Thinking the Unthinkable," *The Economist*, 20 October 2001.
[75] A "complete revolution" in the words of the *Financial Times*. See Davidson, "European Investment Locations: A Change of View."
[76] For an account of the details of the liberalization procedure, see OECD, "Oecd Reviews of Foreign Direct Investment: France," (Paris: Organisation for Economic Co-Operation and Development, 1996).

restrictions on FDI was accompanied by the simultaneous establishment of a government-led apparatus aimed at attracting inward FDI[77]; efforts that renowned experts judged as "energetic"[78]. During the same period, the FDI stock in France sky-rocketed from less than 8 per cent of GDP (or 98 billion current USD) in 1990 to over 48 per cent (or 1247 billion current USD) in 2007.

Although Germany traditionally imposed relatively few formal restrictions on inward FDI, its bank-based system of corporate control and the cross-shareholding networks[79] *de facto* strongly inhibited foreign takeovers[80]. As a result, the FDI stock in Germany was notably lower than in France or the UK (see Table 2.1) and experts judged Germany (together with Italy) to be generally less enthusiastic about inward FDI than most of its European peers[81]. Nonetheless, clear signs of a change in understanding of the role of the national economy in the world economy are also observable in the German economic policy discourses of the 1990s and 2000s; it became particularly salient in the mid-1990s when the *Standort*[82] debate – Germany's version of the globalization and competitiveness narrative – took center stage and substantially reframed the economic meaning of inward FDI. For example, the

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[77] As *The Economist* observed, "[a]fter years of keeping foreign companies at arm's length, France is pulling them into its embrace." See "France's Foreign Affair," *The Economist*, 12 February 1994. The French investment promotion efforts were centered around the network of *Invest in France* agencies.
[78] Brown and Raines, "The Changing Nature of Foreign Investment Policy in Europe: From Promotion to Management."
[79] See Peter A. Hall and David W. Soskice, *Varieties of Capitalism : The Institutional Foundations of Comparative Advantage* (Oxford, UK and New York: Oxford University Press, 2001); Culpepper, "Institutional Change in Contemporary Capitalism: Coordinated Financial Systems since 1990."
[80] *Hostile* takeovers were virtually "unheard of" before Vodafone's hostile takeover of *Mannesmann* in the year 2000. See "Deutschland Ag," *Oxford Analytica Daily Brief Service*.
[81] Cf. Phelps and Raines, *The New Competition for Inward Investment: Companies, Institutions and Territorial Development*, 438; Oman, *Policy Competition for Foreign Direct Investment: A Study of Competition among Governments to Attract Fdi*.
[82] The English translation of Standort is 'location' and the 'Standort debate' refers to debates about the quality of the German national economy as a location of economic production within the global economy.

influential *Council of Economic Experts* explained their reasoning about the meaning and significance of FDI inflows as follows:

> "The difficulties of the German economy to overcome its growth weaknesses are determined by the dynamics of locational competition. In a world, in which qualified labour is available in many countries, in which capital and entrepreneurial activity are mobile across borders, in a world economy, which is becoming ever more integrated through the reduction of trade barriers as well as through the developments in communication and transport technologies, the labour force, which is tied to one *Standort*, can only find employment if their *Standort* can be made attractive to investments. (…) Neither export figures nor the real exchange rate of the German mark are good indicators to judge the quality of the *Standort*. What matters are investments, in particular investments of foreign companies in Germany (…) Here we witness clear warning signs: foreign direct investment into Germany have fallen to disappointingly low levels …"[83]

Mirroring such views, Gerhard Schroeder (Chancellor from 1998 to 2005) proclaimed in the late 1990s that "there is no longer a 'German model'", instead proposing "a program of modernizing the German state with tax and spending cuts and adapting to globalization by seeking to attract foreign investment"[84]. Accordingly, the German government visibly scaled up its investment promotion efforts in the early 2000s, which reached a peak in a disturbing ad-campaign that was widely publicized during the 2006 football World Cup held in Germany (see Figure 3.5).

[83] Sachverstaendigenrat, "Jahresgutachten 1996/97 Des Sachverstaendigenrates Zur Begutachtung Der Gesamtwirtschaftlichen Entwicklung," ed. Deutscher Bundestag (1997), 10-11. [Original in German, own translation]
[84] Ben Lieberman, "From Economic Miracle to Standort Deutschland: Exchanging Economic Metaphors in the Federal Republic of Germany," *German Politics and Society* 18, no. 2 (2000): 45.

Figure 3.5. Germany, the 'Land of Ideas'…

SOURCE: Scholz and Friends[85]

Canada: Sound of Silence in Hudson Bay

As discussed in the previous chapter, very high levels of US FDI inflows in Canada in the 1950s and 1960s fostered widespread concerns among Canada's public and policy elites and led to the adoption of a variety of regulatory restrictions aimed at reducing Canada's reliance of foreign investment inflows. From the mid-1980s onwards Canada started to backtrack on this approach - as illustrated in Figure 3.4 - and granted the principle of 'national treatment' to US investors through the adoption of NAFTA in 1988. However, in comparison to other advanced economies, it did maintain a review process that affected a substantial share of investment projects[86] and also upheld more sector-specific restrictions (primarily in publishing

[85] Scholz and Friends, "Cases: Deutschland," http://www.s-f.com/scholz_friends_european_office/en/creation/cases/deutschland/.
[86] The review process had to determine that a planned FDI project would have a "net benefit to Canada". In general, this requirement was interpreted liberally, and by 2011 only four investment

and broadcasting, extractive industries, fishing, transport and communication as well as finance and insurance) than most of its peers[87]. At the same time, however, the Canadian government also started to actively promote FDI in the manufacturing sector at the national level and state-level governments - frequently competing for investment projects with US states - equally started offering increasingly generous incentives packages[88]. Accordingly, a WTO policy review concluded in 1998 that, overall, "attracting foreign investment has … become a main objective of Canada's economic policy"[89]. Having reached levels above 30 percent of GDP in the early 1960s, the inward FDI stock relative to total economic production decreased throughout the 1970s and 1980s (see Table 2.1). From the early 1990s onwards, this ratio started to re-increase and in the mid-2000s it finally returned to levels above 30 percent. Having stirred great political controversy in the 1960s, a key characteristic of this second FDI boom in Canada – mirroring similar phenomena across the developed world – was that it went almost unnoticed. Right after the takeover of the legendary *Hudson Bay Company* (founded in 1670) by US investors in 2006, *The Economist* commented with some awe that "there was barely a whisper of protest. Even the *Council of Canadians*, which not too long ago would have delivered a rousing nationalistic rant on the evils of American ownership, was

proposals, all in cultural industries, had been rejected on these grounds. WTO, "Trade Policy Reviews." WT/TPR/S/246, 4 May 2011.

[87] Ibid. WT/TPR/S/22, 7 October 1996:point 68.

[88] Oman, *Policy Competition for Foreign Direct Investment: A Study of Competition among Governments to Attract Fdi*, 74ff. The same study found that in the province of Quebec the average incentives granted in the years 1995-1998 amounted to $50,000-$80,000 per job created, or roughly one quarter of the total investment.

[89] WTO, "Trade Policy Reviews." WT/TPR/S/53, 1998.

uncharacteristically silent"[90]. In Canada too, FDI had become politically largely uncontroversial.

Japan: Searching for 'Global Vitality'

Under intense international pressure - primarily from the USA and OECD - Japan had removed most formal restrictions on inward FDI in the 1980s[91]. Yet – similar to Germany in some ways – many informal barriers[92] to foreign investors subsisted into the 2000s. At the same time, the Japanese government also seemed less interested in the idea of investment promotion than other states[93]. As a result, the FDI stock in the Japanese economy – although growing nearly ten-fold relative to economic production from the early 1990s to the mid-2000s – remained exceptionally low in international perspective, hovering around 3 percent of GDP in 2007. Interestingly, while these relatively low levels of inward FDI had previously appeared to correspond to the intentions of Japanese policymakers, they now gradually came to be seen as a 'problem' and 'sign of weakness'. In 1997, *The Economist* reported that "slowly that [old] way of thinking is being eroded. Worried by the American lead in several industries, notably information technology, they [the Japanese] have realised that foreign investors can be a valuable source of know-

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[90] "A Foreign Invasion," *The Economist*, 4 February 2006.
[91] Like most other countries, it did maintain some sector-specific restrictions in 'sensitive' industries, e.g. telecommunications, air and maritime transport, fishing, etc. See "Trade Policy Reviews." WT/TPR/S/76, 17 October 2000.
[92] Such as complex regulatory and distribution systems, widespread cross-shareholding structures, a high tax burden as well as very high costs of land and real estate. See ibid. WT/TPR/S/32, 5 January 1998.
[93] Cf. Oman, *Policy Competition for Foreign Direct Investment: A Study of Competition among Governments to Attract Fdi*.

how and technology."[94] Two economists from Hitotsubashi University elaborated these lines of reasoning as follows:

> "[W]hereas in the past it may have been sufficient to rely on knowledge and technology that is easily separable from managerial resources – technology that can be obtained through licensing, for example – this is no longer the case. Today, the areas in which Japan would most benefit from foreign knowledge and technology are those that are embodied in people, organizational structures, business processes, and products and come as a 'package', that is, in the form of FDI. While this is true for the manufacturing sector, it is especially true for services, which will have to generate most of Japan's future economic growth, but in which the country has produced few internationally competitive companies and productivity lags considerably behind that of other advanced economies. However, for Japan to be able to take advantage of such types of knowledge, it will have to achieve 'inner globalization' based on the recognition that the nationality of a firm is of little relevance for a country's economic welfare."[95]

At the same time, the government started to issue periodically repeated official declarations to "take measures to make it [Japan] an attractive investment destination for foreign firms" in order to "double" inward FDI flows within certain time frames[96] and it implemented a series of initiatives to attract FDI[97]. In the mid-2000s, a government agency initiated a highly visible advertisement campaign in the global financial press, in which it declared that "[t]here's no ambiguity: Foreign

[94] "Not Quite So Sparkling China," *The Economist*, 1 March 1997.
[95] Fukao and Paprzycki, *Foreign Direct Investment in Japan : Multinationals' Role in Growth and Globalization*, 10-11.
[96] See World Trade Policy Reports on Japan from 2000, 2002, 2004, 2006, 2007, 2009, 2011 and 2013. WTO, "Trade Policy Reviews."
[97] For example, the government started offering tax incentives and low-interest loans to foreign investors in the late 1990s; it created the *Japan Business Support Center,* a one-stop shop for foreign investors, in 2003; it adopted a 'Program for the Acceleration of Foreign Direct Investment in Japan' in 2006 and created an 'Expert Committee on FDI Promotion in 2007. See ibid. WT/TPR/S/76, 17 October 2000; WT/TPR/S/175, 19 December 2006; WT/TPR/S/211.

direct investment has the green light to go in Japan"[98], and announced in melodramatic fashion the 'third opening' of Japan:

> "With astonishing results, Japan has opened up to the outside world twice in recent history. First, in the mid-19th century, the country embraced the West to become an industrialized power after centuries of isolation. Later came its post-war experience of democratizing, almost overnight, to achieve miraculous growth. Today the country is undergoing an equally dramatic 'third opening' to foreign investments. And like during the previous two periods when Japan welcomed the outside world, the changes and opportunities are multifaceted and manifold. (…) *There has been a significant shift in attitude: foreign investments are no longer seen as a threat, but as an opportunity for growth and domestic reform."*[99]

The evolution of government attitudes and FDI policies in the large advanced economies in the 1990s and early 2000s thus share many similarities. All countries proceeded to remove remaining regulatory restrictions on FDI inflows throughout the 1990s and 2000s and, at the same time, significantly scaled up their investment *promotion* efforts. During the same period, levels of inward FDI increased sharply in all six countries under observation. Interestingly from a historical perspective - and in stark contrast to the developments in the 1960s and 1970s outlined in the previous chapter -, these surges in investment inflows from foreign companies, however, hardly roused any political opposition. Instead, they were warmly welcomed by governments who considered them to be largely uncontroversial and, on the whole, an unambiguously 'good thing'.

[98] "Invest Japan," *The Economist*, 11 October 2008.
[99] "Doors and Opportunities Open up in Japan," *The Economist*, 9 June 2007. [emphasis added]

SYNTHESIS: THE 'NEW' PERCEPTION OF FDI

The profundity of the transformation of the predominant social representation of inward FDI is unmistakable. While the statist narrative predominant in the 1960s and 1970s described inward FDI as an economic 'challenge' or even a 'threat', they subsequently came to be re-interpreted as the opposite. As observed, in the 1990s, governments around the world started to consider inward FDI increasingly as an 'opportunity' and a 'solution' to their economic woes rather than a 'problem'. This transformation is not only dramatic in its degree of change, it is also somewhat puzzling. Although the nature of FDI flows certainly did evolve during the long period of observation, these changes were – as far as this can be assessed empirically – not nearly as sweeping as the simultaneous transformation in the socially constructed economic meaning attached to them. Furthermore, the findings of empirical studies assessing the effects of FDI inflows on the economy have continued to be highly ambiguous. In order to unravel this puzzle, this thesis suggests situating this transformation within the evolution of predominant economic narratives and in particular the rise of the globalization narrative in the early 1990s. Offering a distinct – and somewhat peculiar - framework to understand the world economy, the narrative argued that 'national' economies have lost much of their economic relevance and portrayed multinational companies as 'nationality-less' and globally mobile units that incorporate the 'cutting edge' of economic production. As a result, the narrative re-conceptualized national economies as 'sites of production' for globally mobile companies and argued that the economic success of national economies is increasingly defined by the contribution of local economic activities to *global* value chains rather than the strength of indigenously grown industries. In this light, inward FDI came to be interpreted as an inherently 'good' and highly desirable economic object. It was portrayed not only as a source of employment-creation, but primarily as a force for 'positive spillovers' that can foster national economic development (or 'competitiveness') by upgrading the *quality* of the economic activities that are performed in any one country. Moreover, as a further implication of the narrative's logic, inward FDI came to be attributed with a very powerful *symbolic* value. While increases in FDI inflows in the 1960s and 1970s were commonly understood as a sign of weakness of domestic industries, they now came to be gradually re-interpreted as a symbol of economic success.

The next part of the thesis will assess the impact of this ideational transformation at larger cross-national samples using quantitative methods. Subsequently, the last part will trace these developments in more depth in a comparative case study of the United Kingdom and France.

PART III. QUANTITATIVE ANALYSES

Chapter 4 . SOCIALIZING INTO GLOBALIZATION? CHANGING ECONOMIC NARRATIVES AND PUBLIC OPINION TOWARDS INWARD FDI

Focusing on developments in the six largest advanced economies, preceding chapters have analysed commonly held beliefs about the economic implications of FDI inflows and illustrated the dramatic changes that these beliefs have undergone during the course of the post-war era. The aim of this present part of the thesis is to assess whether and to what extent these evolutions are reflected in trends in public opinion (this chapter) and voting behaviour at general elections (Chapter 5) through quantitative analyses of relevant cross-national data that draw from larger samples of countries, encompassing practically all developed economies.

As the primary aim of the previous sections was to scrutinize and spell out the depth and nature of the transformations in the prevalent ways in which FDI inflows were thought about, its focus was primarily (although not exclusively) on the discourses advocated by those social groups that engage most explicitly with inward FDI: that is, economic experts and policy elites such as academics, financial journalists, economic commentators, policy makers and their advisers. In contrast, the analyses presented in the present and subsequent chapters focus on the reverberations of these ideational changes among mass publics[1]. As previous studies have shown, there are a number of reasons that suggest that economic attitudes of policy

[1] Ideally I would of course like to compare the supposed effects among elites and non-elites more rigorously. However, this enterprise proves difficult due to data constraints. A number of high-quality elite surveys were conducted in the 1970s (see the collection in John Fayerweather, *Host National Attitudes toward Multinational Corporations* (New York, N.Y.: Praeger, 1982).), but to the best of my knowledge not in more recent years.

specialists and elites and the population at large can differ systematically[2]. For the purposes pursued here, in particular two reasons for such potential differences merit mention: Firstly, the economic narratives at the heart of the argument pursued in this thesis are of relatively higher relevance for policy specialists and some other parts of elite groups (whose day-to-day work activities frequently engage directly with the issues at the heart of economic narratives) than for the public at large (whose professional focus is typically further removed from such questions). Secondly, as a variety of studies of economic attitudes have convincingly demonstrated[3], levels of income and education are two of the strongest and most consistent positively associated predictors of the liberalism of individual economic views. As a result, it seems safe to assume that the reflection of the changes in economic narratives described in previous chapters are somewhat less pronounced in public opinion data than they are in specialized policy debates and that attitudes of mass publics towards inward FDI are on average more hostile than those of policy specialists[4]. Yet, at the same time, as the discussion in Chapter 1 has elaborated in more detail (see in particular pp. 48-65), an important aspect of economic narratives

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[2] See Bryan Caplan, "How Do Voters Form Positive Economic Beliefs? Evidence from the Survey of Americans and Economists on the Economy," *Public Choice* 128, no. 3 (2006); "Systematically Biased Beliefs About Economics: Robust Evidence of Judgemental Anomalies from the Survey of Americans and Economists on the Economy," *Economic Journal* 112, no. 479 (2002); Robert J. Blendon et al., "Bridging the Gap between the Public's and Economists' Views of the Economy," *Journal of Economic Perspectives* 11, no. 3 (1997).

[3] For example, Anna Maria Mayda and Dani Rodrik, "Why Are Some People (and Countries) More Protectionist Than Others?," *European Economic Review* 49, no. 6 (2005); Jens Hainmueller and Michael J. Hiscox, "Learning to Love Globalization: Education and Individual Attitudes toward International Trade," *International Organization* 60, no. 2 (2006); Sonal S. Pandya, "Labor Markets and the Demand for Foreign Direct Investment," ibid.64, no. 03 (2010).

[4] For example, a public opinion survey conducted in Canada in the mid-1970s that explicitly compared attitudes of 'blue collar' and 'white collar' workers found that while roughly half of the respondents among elites had a 'rather positive' attitude towards inward FDI, less than one third of working class members expressed a positive view. See John Smetanka, "Sources of Foreign Investment Attitudes: A Study of Canadian Executives," in *Host National Attiudes toward Multinational Corporations*, ed. John Fayerweather (New York: Praeger Publishers, 1982), 76.

– in contrast to more scientific types of economic knowledge – consists precisely of their close connection to non-elite and non-specialist social groups who play a central role in their creation and dissemination. Therefore, the main hypothesis to be tested in the following analyses is that the rise to prominence of the globalization narrative in the late 1980s and early 1990s – while the relative impact of this phenomenon on public opinion is expected to be somewhat less pronounced than its influence among policy specialists - encouraged individuals to adopt more favourable views of inward FDI. To test this hypothesis and some of its potential political implications, the current chapter analyses relevant evidence from cross-national public opinion data while the subsequent chapter examines the reflections of these ideational developments in voting behaviour at general elections.

Due to the relatively long time horizon of the argument of narrative change which unfolds over five decades and the lack of a series of consistent cross-national public opinion surveys covering such a long time period[5], it is not possible to track the parallel evolution of narratives and public attitudes towards FDI directly. Instead, the analysis presented in this chapter builds on insights gained from the literature on socialization in the fields of social psychology and sociology and exploits some of the systematic patterns of measurable heterogeneity in the relative levels of exposure to the narratives of statism and globalization among specific subgroups of respondents that are suggested by this literature. In particular, I leverage the literature's finding that individuals' political and economic core beliefs are primarily formed in a

[5] Public opinion surveys on attitudes towards FDI have been conducted for a long time. They were in fact more common and frequently of higher quality in the 1960s and 1970s – when FDI was seen as a political 'hot topic' – than they are today. (See, for example, the collection in Fayerweather, *Host National Attitudes toward Multinational Corporations*.) However, the problem is that the various surveys are not consistent over time as they use different questions and different samples over time.

relatively short time period during late adolescence and early adulthood. Accordingly, I posit that individuals who passed this period of prime socialization in a historical intellectual environment in which the globalization narrative was prominent will hold more favourable views of inward FDI than those exposed to the statist narrative during that time. Paying special attention to potential alternative age-related mechanisms that may simultaneously influence respondents' views of inward FDI (such as structural transformations in the nature of FDI, a natural trend towards conservatism with increasing age or respondents' employment prospects), I test this hypothesis using the results of two waves of a large-scale cross-national survey conducted by the International Social Survey Programme (ISSP). The analyses find strong and robust evidence that corroborates the hypothesis and further analyses reveal that the more nuanced patterns of this generational difference in FDI attitudes are strongly consistent with the precise predictions of the argument of socialization, but not with those derived from potential alternative explanations.

Narratives, socialization and individual attitudes towards economic globalization

A number of existing studies have assessed possible determinants of individual attitudes towards international economic openness. Testing the predictions of relative factor endowment models - and interpreting levels of income and education as proxy variables for individuals' skills -, several studies have found evidence that more highly skilled individuals in advanced economies are less likely to support trade restrictions[6]. An analysis by Sonal Pandya (using public opinion data from Latin America) found similar evidence for the case of individual preferences towards inward FDI[7]. Subsequent studies have challenged the strong emphasis made by these original studies on the alignment of individual preferences with respondents' derived material interest, arguing that they paid too little attention to empirically disentangle the effects of material interests from potentially overlapping ideational factors. For example, Jens Hainmueller and Michael Hiscox have shown that the impact of increasing levels of education on individual preferences towards trade are more consistent with theories conceptualizing education as a proxy for ideology, cultural beliefs and economic-political information rather than professional skills[8]. Edward Mansfield and Diana Mutz presented similar evidence on the impact of education and, furthermore, demonstrated that individual trade preferences are more strongly influenced by respondents' *perception* of trade's impact on the national economy (what they call 'sociotropic' concerns) rather than their own material well-being ('egocentric' concerns)[9].

This study builds and expands upon these insights. Although the theoretical perspective pursued throughout this thesis in many ways agrees with rationalist

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[6] See Kenneth F. Scheve and Matthew J. Slaughter, "What Determines Individual Trade Policy Preferences?," *Journal of International Economics* 54, no. 2 (2001); Kevin O'Rourke, "Heckscher-Ohlin Theory and Individual Attitudes Towards Globalization," in *IDEAS Working Paper Series from RePEc* (St. Louis2003); Mayda and Rodrik, "Why Are Some People (and Countries) More Protectionist Than Others?."
[7] Pandya, "Labor Markets and the Demand for Foreign Direct Investment."
[8] Jens Hainmueller and Michael J. Hiscox, "Learning to Love Globalization: Education and Individual Attitudes toward International Trade," ibid.60, no. 2 (2006). See also "Educated Preferences: Explaining Attitudes toward Immigration in Europe," *International Organization* 61, no. 2 (2007).
[9] Edward D. Mansfield and Diana C. Mutz, "Support for Free Trade: Self-Interest, Sociotropic Politics, and out-Group Anxiety," ibid.63, no. 3 (2009). For a similar argument regarding outward FDI, see Edward D. Mansfield and Diana Carole Mutz, "Us Versus Them: Mass Attitudes toward Offshore Outsourcing," *World Politics* 65, no. 4 (2013).

approaches on the fundamental importance of interests in economic and political affairs, like Hainmueller and Hiscox and Mansfield and Mutz, it conceptualizes interests as more complicated phenomena than merely logical inferences that can be derived from an individual's relative position in the economic system: As many studies in constructivist IPE have demonstrated[10], carving out one's interest towards certain economic processes is oftentimes less straightforward than it may seem; especially so when the economic effects of a phenomenon are far from being self-evident, as it is the case for inward FDI. As discussed in the introduction chapter, professional economists disagree substantially about the consequences of increases in FDI inflows and empirical findings of its effects are nuanced and highly ambivalent. And if economic experts struggle to define the economic effects of inward FDI then the assumption that individuals 'know' them seems somewhat problematic. Furthermore, as Mansfield and Mutz have strongly argued[11], individuals usually care not only about the effects of an economic process for their own personal well-being, but also the (perceived) implications thereof for the social groups they care about, such as their families and friends, local communities or their home country as a whole.

To identify their preferences in face of such complexities and considerable uncertainty, as I have elaborated in Chapter 1, individuals must frequently rely on interpretive frameworks such as economic narratives when defining their perceived

[10] See, for example, Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*; Rawi Abdelal, Mark Blyth, and Craig Parsons, *Constructing the International Economy* (Ithaca and London: Cornell University Press, 2010); Jeffrey M. Chwieroth, "How Do Crises Lead to Change?: Liberalizing Capital Controls in the Early Years of New Order Indonesia," *World Politics* 62, no. 3 (2010).
[11] Cf. Mansfield and Mutz, "Support for Free Trade: Self-Interest, Sociotropic Politics, and out-Group Anxiety."

economic interests and preferences. In consequence, the key contention of this study is that by shaping the ways in which specific economic phenomena are conceptualized and by threading the webs of meaning that surround them, economic narratives can affect how individuals construe their (perceived) economic interests and thereby have an effect on the formation of individual preferences, which is independent from individuals' specific material position within the economic system. While the studies by Hainmueller and Hiscox or Mansfield and Mutz follow similar lines of argumentation, they conceptualize the influence of ideational factors on preference formation as being largely static. The analysis presented in previous chapters, however, has shown that the content and the prescriptions that individuals derive from interpretive frameworks that they use to define their preferences can change substantially over time. As we have seen, the description of FDI inflows in predominant economic narratives has changed notably from a conceptualization of inward FDI as a 'threat' in the 1960s towards a new interpretation of FDI inflows as a symbol of economic success in the 1990s. Therefore, the hypothesis, which I aim to test in the empirical analysis that follows, is that individuals who were more strongly exposed to the statist narrative during their lifetime, all else equal, will express more negative views of inward FDI than individuals who were more strongly exposed to the narrative of globalization.

Age and socialization

The key challenge to test this hypothesis is to identify a measurable dimension of variation that differentially affects the exposure of specific groups of respondents to one narrative or the other in a systematic manner. To that end, the analysis that follows proposes to exploit differences in the time periods into which different groups of respondents were born. More specifically, I exploit the key insight generated by a firmly established stream of literature in social psychology and sociology, which has consistently found that most of the political and economic core beliefs that individuals hold are formed during late adolescence and early adulthood when individuals have been found to be relatively open to adopt new ideas, whilst their susceptibility to change attitudes decreases gradually subsequently[12].

This relationship between age and individuals' mental or normative flexibility has been observed in a variety of issue areas and the literature has forwarded a number of explanations why people become less likely to change their views as they grow older. Jon Krosnick and Duane Alwin list thee reasons in particular[13]: a biologically driven process of cognitive decay that makes the absorption of new information more difficult for older people; individuals' reliance on previous experiences as anchors that create psychological stability, which naturally decreases the proportional impact of new information as the total number of previous experiences

[12] See Glenn, "Aging and Conservatism; Gregory B. Markus, "The Political Environment and the Dynamics of Public Attitudes: A Panel Study," *American Journal of Political Science* 23, no. 2 (1979); Jon A. Krosnick and Duane F. Alwin, "Aging and Susceptibility to Attitude Change," *Journal of Personality and Social Psychology* 57, no. 3 (1989); Alwin, Cohen, and Newcomb, *The Bennington Women after Fifty Years*. For an application of these social psychological insights focusing on macroeconomics, see Paola Giuliano and Antonio Spilimbergo, "Growing up in a Recession: Beliefs and the Macroeconomy," *NBER Working Paper Series* 15321(2009).
[13] Krosnick and Alwin, "Aging and Susceptibility to Attitude Change," 416.

grows[14]; and the observed tendency towards decreased social engagement with increasing age, which tends to concentrate individuals' social networks among individuals from the same cohort, thereby reducing the likelihood of being exposed to new norms or beliefs prominent among younger cohorts.

While the relevant literature agrees on the existence of this broad pattern, there is some debate about the exact degree of difference in relative mental flexibility during adolescence and early adulthood as opposed to later stages in life. At the risk of oversimplification, the contending perspectives can be labelled, respectively, as the 'impressionable years hypothesis' (IYH) and the 'increasing persistence hypothesis' (IPH)[15]. According to the former, individuals are unlikely to change core beliefs after the completion of early adulthood. In contrast, the latter contends that individuals keep adapting their beliefs and attitudes to general societal trends throughout their life cycle, although their susceptibility to change attitudes decreases gradually as they age.

Aside of these ongoing debates, which I will elaborate in more detail below, the central insight produced by this field of research consists of the repeated observation that "the historical environment in which a young person becomes an active participant in the adult world shapes the basic values, attitudes, and world views formed during those years"[16] and that these core beliefs acquired during early adulthood typically shape individuals' views throughout their lifespan. Accordingly, because population-level exposures to newly emerging norms or social

[14] Cf. Glenn, "Aging and Conservatism," 176.
[15] See Krosnick and Alwin, "Aging and Susceptibility to Attitude Change," 416.
[16] Ibid.

beliefs differentially affect different age groups, the literature portends the existence of persisting differences in public attitudes among groups of individuals who grew up in the same historical context, so-called *cohort effects*.

Applied to the theoretical argument pursued in this thesis, this insight suggests a clearly defined prediction: namely, that individuals who passed their early adulthood in a time-period in which the narrative of globalization was highly salient will, all else equal, hold more favourable views of inward FDI than older individuals who passed their prime period of economic socialization in a historical context in which the statist narrative was predominant.

Although the age-span of 'early adulthood' has never been conclusively defined, following the landmark study of Theodore Newcomb and his collaborators[17], most studies in the field operationalize it as the period roughly between the age of 18 and 25 years and I follow this standard practice in the empirical analysis below. Hence, situating the rise of the globalization narrative around the year 1990, the basic age-related prediction of the argument of socialization is that individuals born before the mid-1960s – that is, individuals who turned 25 years old before 1990 – *ceteris paribus* have more negative views of inward FDI than individuals born later.

Empirical strategy

To test this prediction empirically, I combine conventional regression techniques with a method of graphical visualization, which allows me to analyse the precise

[17] Alwin, Cohen, and Newcomb, *The Bennington Women after Fifty Years*.

patterns of the cohort-effect in a more fine-grained manner and to differentiate it from other potential age-related differences in attitudes towards inward FDI.

Graphical pattern analysis

At least theoretically, age can affect individual attitudes towards FDI in a variety of ways. In particular two age-related mechanisms other than a cohort effect merit further discussion: (i) an individual's employment prospects, and (ii) the relationship between age and political conservatism more generally. All else equal, younger members of the workforce tend to be more flexible, dynamic and open-minded, which makes them more attractive for foreign multinationals as potential employees compared to older peers. As a result, it is possible that younger respondents generally have a more positive attitude towards FDI due to their relatively higher chances to be hired by a multinational firm in the future. Similarly, conventional wisdom suggests that older people tend towards political conservatism. This assumption, which is not uncontested[18], may also suggest that younger respondents in general have a more liberal and cosmopolitan view of the world and thus naturally a more positive perception of foreign companies than older peers.

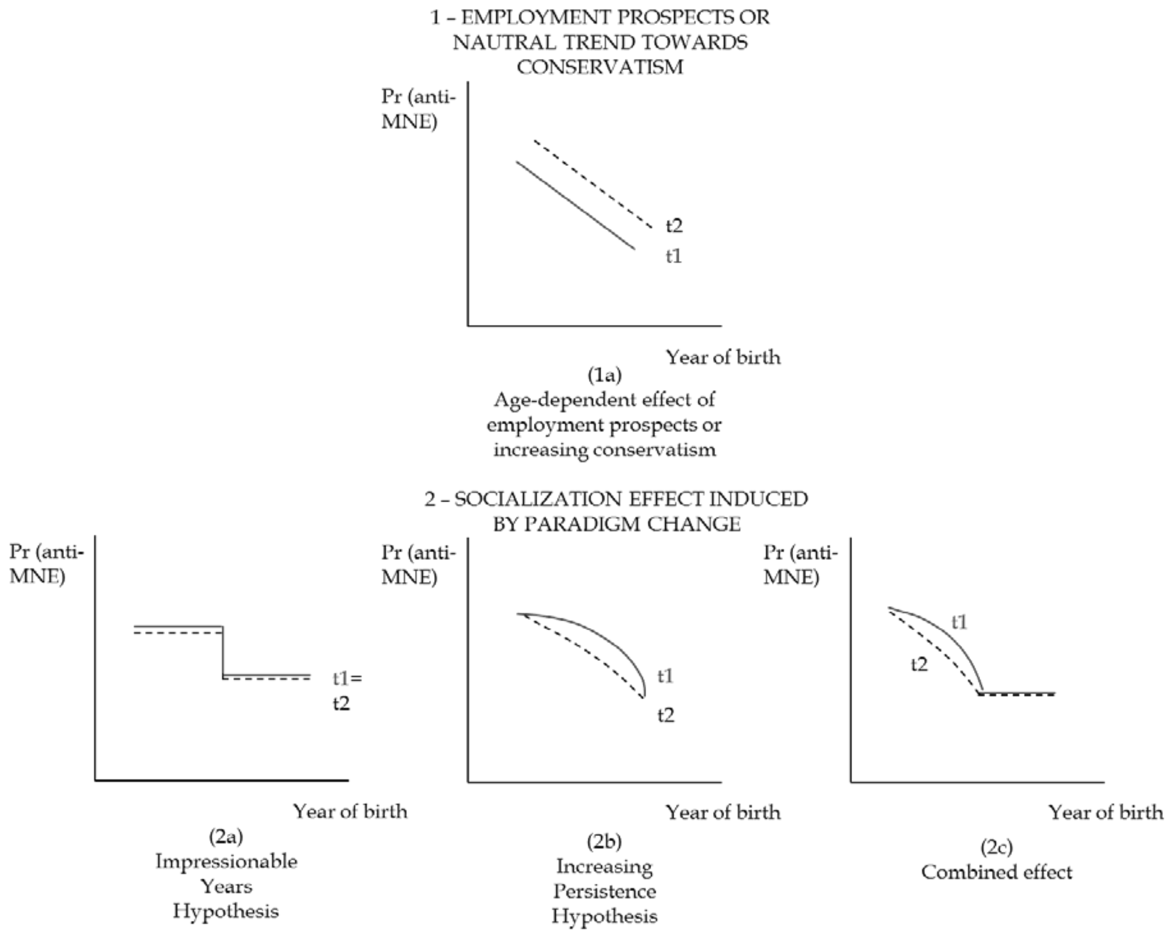
To identify the existence of a cohort effect in public opinion surveys on attitudes towards FDI it is thus essential to disentangle any such effect from these potential alternative mechanisms. To do so, I refer to a method of graphical pattern analysis,

[18] See discussion in Glenn, "Aging and Conservatism."

which was originally proposed by Paul Baltes and Robert Blanchard and his colleagues[19]. Crucially, although the proposed mechanism of socialization as well as the employment prospects or natural trend towards conservatism hypotheses are all connected to an individual's age, they relate to age in different ways. While the latter two are typical *ageing* effects, which derive directly from the biological process of ageing itself, the former is primarily due to the historical context into which respondents are born rather than the ageing process *per se*. In consequence, the predicted patterns deriving from the distinct channels through which the ageing and cohort effects relate to individual attitudes towards FDI are distinct. To illustrate these differences analytically, the various patterns of the expected theoretical effects are plotted graphically in Figure 4.1.

[19] See P. B. Baltes, "Longitudinal and Cross-Sectional Sequences in the Study of Age and Generation Effects," *Human Development* 11(1968); Robert D. Blanchard, James B. Bunker, and Martin Wachs, "Distinguishing Aging, Period and Cohort Effects in Longitudinal Studies of Elderly Populations," *Socio-Economic Planning Sciences* 11, no. 3 (1977).

Figure 4.1. The expected effect of age on the attitude towards inward FDI



To reflect the structure of the actually available data (discussed in more detail below), the plot illustrates the theoretical relationships of the different mechanisms under the assumption that we dispose of two survey waves (t1 and t2), which were both undertaken *after* the change in narrative had taken place at t0. The x-axis shows respondents' year of birth (i.e. respondents' age decreases as we move from left to right) and the y-axis the probability that they express a negative view towards foreign companies. For the sake of simplicity, I assume here that the effect of ageing is linear[20]. The predicted relationship between age and attitude towards inward FDI that derives from the hypotheses of employment prospects or the natural trend towards conservatism are essentially the same: as illustrated in plot 1a in Figure 4.1, both hypotheses predict that the probability to express a negative view of MNEs increases gradually as the year of birth decreases and, critically, that respondents from the same birth cohort express more negative views at t2 than they had done at t1. In contrast, the theoretically predicted pattern of a *cohort* effect deriving from the mechanism of socialization described above - illustrated in plots 2a-c in Figure 4.1 - is rather distinct from these two hypotheses: According to the IYH, respondents who passed their years of prime socialization in a period in which the globalization narrative was predominant, will express notably more positive opinions about the role of foreign companies than respondents who had completed their early adulthood before the globalization narrative rose to prominence. Furthermore, the IYH also predicts that the difference among the two groups remains constant over time (i.e. it does not vary from t1 to t2) and that the effect is largely homogenous within the two groups of birth cohorts (plot 2a in Figure 4.1). Instead, the IPH suggests that - to a gradually decreasing extent – the rise to prominence of the globalization narrative also affects birth cohorts who completed their prime period of socialization before the 1990s. More precisely, it predicts that individuals who spent their early adulthood in a time period in which the statist narrative was still predominant will subsequently partly adopt the views of the globalization narrative, but that the degree to which they do so decreases as they grow older (and their attitudinal flexibility gradually declines). Moreover, it predicts a difference in the

[20] Non-linear extensions can be elaborated easily from the illustration.

responses from the same birth cohorts from t1 to t2: the longer that individuals are exposed to a new narrative, the greater the chances become that they will adopt the views it advocates, but this effect gradually decreases as they grow older (see plot 2b in Figure 4.1). Crucially, in contrast to the employment or natural trend towards conservatism hypotheses, the latter implies that identical birth cohort groups turn *more* (rather than less) favourable towards FDI from t1 to t2. Combining the predictions of the IYH and IPH, the resulting expected effect of the socialization mechanism is illustrated in plot 2c in Figure 4.1. Overall, it suggests three key patterns: Firstly, respondents who turned 25[21] before the rise to prominence of the globalization narrative in the early 1990s – in other words, respondents who were born before the mid-1960s – express notably less favourable views of inward FDI than respondents born later. Secondly, in contrast to the employment prospects or natural trend towards conservatism hypotheses, the socialization mechanisms suggests that there should be no notable age effect among cohorts born after the mid-1960s: as they were not previously primed by the statist narrative, their views on inward FDI should be roughly similar and not change much over time as they grow older. Thirdly, for the birth cohorts born before the mid-1960s, it suggests that the degree to which they adopt the views of the new narrative decreases as a function of age, but – in contrast to the employment prospects and natural trend towards conservatism hypotheses – increases from t1 to t2 as their exposure to the new narrative persists.

[21] As discussed, this is a somewhat arbitrary cut-off point. In the analysis below I use five-year periods, which allows for some more flexibility.

Data and econometric specification

To examine the presence of these patterns in individual attitudes towards FDI in a large cross-national sample, I use the results from the International Social Survey Programme's (ISSP) 2003 and 2013 surveys on national identity, which asked 45,993 respondents from 34 countries[22] in 2003 and 45,297 respondents from 33 countries[23] in 2013 about their identity and their views on foreign cultures and international issues. The surveys include the following question about respondents' attitudes towards foreign companies: "How much do you agree or disagree with the following statement[s]? … Large international companies are doing more and more damage to local businesses in [COUNTRY]"[24]. To analyse the respondents' attitudes towards inward FDI, I create a dummy variable, which is equal to one if a respondent either 'agrees' or 'strongly agrees' with the statement.

Figure A-4.1 in the appendix summarizes the distribution of responses by country and survey wave, showing a broad variation across countries: respondents from

[22] They are: Austria, Australia, Bulgaria, Canada, Switzerland, Chile, Czech Republic, Germany, Denmark, Spain, Finland, France, Great Britain, Hungary, Ireland, Israel, Japan, South Korea, Latvia, Netherlands, Norway, New Zealand, Philippines, Poland, Portugal, Russia, Sweden, Slovenia, Slovakia, Taiwan, United States, Uruguay, Venezuela and South Africa.
[23] They are: Belgium; Croatia; Czech Republic; Denmark; Estonia; Finland; France; Georgia; Germany; Great Britain, Hungary; Iceland; India; Ireland; Israel; Japan; Republic of Korea; Latvia; Lithuania; Mexico; Norway; Philippines; Portugal; Russian Federation; Slovakia; Slovenia; South Africa; Spain; Sweden, Switzerland; Taiwan, Turkey; United States.
[24] See question 7a in ISSP 2003 questionnaire and question 6a in ISSP 2013 questionnaire. The possible answers are 'agree strongly', 'agree', 'neither agree nor disagree', 'disagree', 'disagree strongly', or 'can't choose/no answer'. Two aspects of the phrasing of the question may be somewhat blurring for the purposes pursued here: Firstly, it refers to large 'international' companies, which must not necessarily be 'foreign' (although it seems reasonable to expect that a majority of respondents interpret them as such). Secondly, it implicitly contrasts 'large' (international) companies vs. 'small' (local) ones, which introduces another dimension that is not directly related to the nationality of ownership. Nonetheless, the question clearly does refer to a typical scenario in political debates about inward FDI and thus seems appropriate to gauge respondents' views about inward FDI. For a previous study using the same question to assess attitudes towards FDI, see Ayse Kaya and James T. Walker, "The Legitimacy of Foreign Investors: Individual Attitudes Towards the Impact of Multinational Enterprises," *Multinational Business Review* 20, no. 3 (2012).

several Northern European countries rank among those with most favourable views of inward FDI, while French respondents - together with the Portuguese, Indians and Australians - appear to express the least favourable views. It also suggests that responses are in general relatively hostile towards inward FDI, with more than 50 percent of the respondents expressing a negative view of foreign companies in a majority of countries. This, however, may also partly be explained by the negative framing of the question[25].

Statistical model

To analyze the data, I apply a multi-level (hierarchical) probit model. While multi-level analysis (MLA) is a firmly established method in the fields of sociology or medicine, for example, its application in political science is relatively more recent. In essence, MLA strategies take the nesting of individuals within clusters (in my case, respondents within nation-states) into account and, unlike conventional regression modelling techniques, aim to explicitly model this cluster-level heterogeneity rather than treating it merely as a nuisance. Doing so has substantive and statistical advantages[26]. Substantively, it makes it possible to assess the impact of cluster-level differences that can be of theoretical interest and thereby provides at setting in which the contextual contingency of individual-level variables can be better

[25] On the importance of framing, see Michael J. Hiscox, "Through a Glass and Darkly: Attitudes toward International Trade and the Curious Effects of Issue Framing," *International Organization* 60, no. 03 (2006). Results may have differed notably if the question was instead framed as: "How much do you agree or disagree with the following statement? Large international companies are making an important contribution to the economy of [COUNTRY]".
[26] See Marco R. Steenbergen and Bradford S. Jones, "Modeling Multilevel Data Structures," *American Journal of Political Science* 46, no. 1 (2002); Boris Shor et al., "A Bayesian Multilevel Modeling Approach to Time-Series Cross-Sectional Data," *Political Analysis* 15, no. 2 (2007).

assessed. In contrast to its most obvious alternative, the inclusion of cluster-dummy fixed-effects, MLA models do not just absorb cluster-level differences, but are able to explain (some of) them. Statistically, Monte Carlo simulations have shown that in the presence of nested data structures MLA models can also achieve better model fit because they share information from different levels and are better able to handle invariant or slowly changing variables[27]. Technically, I thus adopt a multi-level probit model with random intercepts[28] that allows for within-cluster dependence by letting the constant vary from country to country and which splits the implicit error term into a country-level component that is shared by all individual respondents from the same country and an individual-level component that is unique to each respondent[29]. Formally, it takes the following form[30]:

$$\Pr(y_i = 1|x_i) = \phi\left(\alpha_j + \beta x_{ij}\right) \qquad (1)$$

$$\alpha_j = \phi(\gamma_0 + \gamma_1 z_j) \qquad (2)$$

where y_i=1 denotes a respondent indicating a negative view of foreign companies and x_i are the covariates; ϕ indicates a cumulative distribution function of the standard normal distribution, i denotes individuals and j countries. Accordingly, β captures the individual-level effects of covariate x_{ij} and γ_1 the effect of country characteristic z_j. α_j are country-specific intercepts and γ_0 denotes the overall (average) intercept.

[27] "A Bayesian Multilevel Modeling Approach to Time-Series Cross-Sectional Data."
[28] Note that I do not allow for the simultaneous inclusion of random slopes.
[29] S. Rabe-Hesketh and Anders Skrondal, *Multilevel and Longitudinal Modeling Using Stata*, 3rd ed. (College Station, Tex.: Stata Press Publication, 2012).
[30] Cf. Daniel Stegmueller, "How Many Countries for Multilevel Modeling? A Comparison of Frequentist and Bayesian Approaches," *American Journal of Political Science* 57, no. 3 (2013): 749.

The main variable of interest is *Birth cohort*, an individual-level categorical variable dividing respondents into cohorts according to their year of birth in five-year intervals (i.e. born between 1929 and 1933, 1934-1938, etc.)[31]. Generally, the oldest cohort is used as the reference category. Furthermore, I include a number of control variables at the individual as well as the country-level. At the level of respondents, I account for the following covariates: *Household income (ln)* is the log of respondents' reported monthly family income converted to euros[32]. *Secondary degree* is a dummy variable which is equal to one if the respondents' reported highest education level is equal to 'higher secondary completed' or higher. Similarly, *University degree* is equal to one if the reported highest education level is 'university degree completed'. Following the existing literature on individual attitudes towards international

[31] Methodological studies in sociology and medicine have discussed the difficulties to disentangle age, period and cohort effects in much detail. At the heart of the 'APC problem' lies the fact that the three concepts are mechanically related to each other: Age=period – cohort. As a result, they shouldn't be simultaneously included into a regression because "it is impossible conceptually to hold two of the terms constant without holding the third term constant as well", which would thus cause a collinearity problem. See Andrew Bell and Kelvyn Jones, "The Impossibility of Separating Age, Period and Cohort Effects," *Social Science & Medicine* 93(2013). The 'APC problem' thus relates to the difficulty to disentangle age, period and cohort effects in one statistical model. As I am here not interested in disentangling the three factors from each other, but only to assess whether a cohort effect is present in the data or not (without simultaneously controlling for age or period effects), this is not an issue here. For a fuller discussion of the 'APC problem' and some proposed 'solutions', see Norval D. Glenn, "Cohort Analysts' Futile Quest: Statistical Attempts to Separate Age, Period and Cohort Effects," *American Sociological Review* 41, no. 5 (1976); Karen Oppenheim Mason et al., "Some Methodological Issues in Cohort Analysis of Archival Data," ibid.38, no. 2 (1973); Yang Yang and Kenneth Land, "A Mixed Models Approach to the Age-Period-Cohort Analysis of Repeated Cross-Section Surveys, with an Application to Data on Trends in Verbal Test Scores," *Sociological Methodology* 36(2006); Yu-Kang Tu, George Davey Smith, and Mark S. Gilthorpe, "A New Approach to Age-Period-Cohort Analysis Using Partial Least Squares Regression: The Trend in Blood Pressure in the Glasgow Alumni Cohort," *PLoS ONE* 6, no. 4 (2011).

[32] According to the conversion rates indicated by the ISSP codebook (2003 survey) or the homepage XE.com (2013 survey). Please note that previous models also included respondents' individual income, which, however, had a weaker and less consistent effect on attitudes towards inward FDI than the household income. This may be due to the fact that the household income is a more appropriate indicator of the economic status of students, persons with family care duties and retirees, who together constitute a significant part of the total sample.

economic openness[33], I expect a higher family income as well as a higher level of education to be negatively associated with the probability that a respondent expresses a hostile attitude towards inward FDI. *Nationalism* is a dummy variable that is equal to one if the response to the question 'How much do you agree or disagree with the following statement: "I would rather be a citizen of [COUNTRY] than any other country in the world"'[34] is either 'agree strongly' or 'agree', and zero otherwise. In accordance with the findings by Mutz and Mansfield[35], who have convincingly argued that patriotic or nationalist feelings are an important noneconomic predictor of negative attitudes towards trade or outsourcing, I expect the covariate to be associated with more hostile views towards FDI. *Public sector employee* is a dummy variable equal to one if the respondent indicated to work for the government or a state-owned enterprise. Assuming that public sector workers are generally more sceptical about the private sector and that they have a lower personal interest in working for a MNC themselves (cf. the employment prospects hypothesis), I expect it to be associated positively with FDI hostility. *Female* is a dummy variable for female respondents. In line with previous investigations of the "mysterious case of female protectionism"[36], I expect it also to be positively associated with anti-FDI attitudes.

[33] See, for example, Scheve and Slaughter, "What Determines Individual Trade Policy Preferences?; Mayda and Rodrik, "Why Are Some People (and Countries) More Protectionist Than Others?; Hainmueller and Hiscox, "Learning to Love Globalization: Education and Individual Attitudes toward International Trade."
[34] Question 19 in International Social Survey Programme, "Issp - 2003: National Identity (Ii)," (2002). Question 17 in "Issp 2013 - National Identity Iii: Basic Questionnaire," (2012).
[35] Mansfield and Mutz, "Support for Free Trade: Self-Interest, Sociotropic Politics, and out-Group Anxiety; Mansfield and Mutz, "Us Versus Them: Mass Attitudes toward Offshore Outsourcing."
[36] Brian Burgoon and Michael J. Hiscox, "The Mysterious Case of Female Protectionism: Gender Bias in Attitudes toward International Trade," (2004). Edward D. Mansfield, Diana C. Mutz, and Laura R. Silver, "Men, Women, Trade, and Free Markets," *International Studies Quarterly* 59, no. 2 (2015).

At the country-cluster level, I control for *GDP* (logged), *GDP per capita* (in thousands USD), economic *growth* rates (percentage points), and the stock of *inward FDI* as well as *outward FDI* as a share of GDP (both as percentage points). Because economies with small domestic markets have stronger structural incentives to embrace economic openness than economies with larger markets that have a greater potential to build domestically focused industries, I expect a larger *GDP (log)* to be associated with more negative attitudes towards inward FDI. Following the empirical evidence that the net positive effect of inward FDI on productivity tends to be greater in high-income than in middle-income economies (where IFDI's crowding out effects appear to have the most harmful consequences)[37], I expect GDP per capita to be negatively associated with anti-FDI attitudes. Assuming that the resistance towards inward FDI is weaker during times of economic difficulties, I expect lower economic growth rates to be associated with less hostility and higher growth rates to be associated with more hostility towards FDI inflows[38]. The effect of a larger stock of inward FDI as a share of GDP is not clear *a priori*. On the one hand, the greater visibility of foreign companies associated with a larger stock of inward FDI may arise greater political debates about them, but on the contrary a greater familiarity with foreign companies among the population may also lead to less negative attitudes towards them (i.e. a learning effect). Finally, countries with a large number of internationally oriented home-based MNCs may have more positive attitudes towards the

[37] Meyer and Sinani, "When and Where Does Foreign Direct Investment Generate Positive Spillovers? A Meta-Analysis."

[38] This pattern is also confirmed in a series of cross-national opinion surveys conducted in the 1970s. See Murray and LeDuc, "Changing Attitudes toward Foreign Investment in Canada; Norman Graham, "Developed Countries and Multinational Corporations: Threat Perception and Policy Response in France and the United Kingdom," ibid.

international economy and MNCs in general, which is why I expect higher levels of the *outward FDI* stock to be associated with more positive attitudes towards FDI.

Results

Table 4.1 presents the main results of the two-level probit regressions. Column 1 and 2 show the estimation results for the 2003 and 2013 surveys separately. Column 3 shows the estimations based on the merged dataset that includes both survey waves simultaneously. The table shows the results including respondents from all countries for which the surveys were conducted (cf. footnotes 22 and 23 above)[39]. Information about respondents' household income is not provided for about a quarter of the sample and responses regarding education levels and nationalist feelings is missing for a few thousands observations, reducing the total combined sample from an original 82,193 to 54,064 respondents.

Turning to the results, nearly all individual-level control variables are significant in the theoretically expected direction in both surveys: a higher household income as well as higher levels of education are associated with a more positive view of FDI, while the expression of nationalistic feelings, employment in the public sector and female gender (the latter only in the 2003 survey) are significant predictors of more hostile attitudes towards inward FDI. The association of the included country-level covariates generally point in the same direction in both surveys, although curiously the associations are statistically insignificant in the 2003 survey but significant

[39] Note that dropping the few non-OECD economies included in the ISSP surveys does not affect the results.

(without exception) in the 2013 survey. Altogether, they suggest that respondents from larger economies are somewhat more hostile towards inward FDI while respondents from economies with a higher GDP per capita and a higher stock of outward FDI tend to express fewer concerns. The association of economic growth rates is in an unexpected negative direction, suggesting that macroeconomic difficulties (i.e. lower growth rates) are associated with *more* rather than less hostility towards FDI. The stock of inward FDI is weakly positively related in the 2003 survey but negatively (and statistically insignificantly) in the combined dataset.

The variables of main interest are the fourteen birth cohort categories at the top of the table[40]. As a whole, the birth cohort variables clearly and consistently show that younger birth cohorts are less strongly opposed to inward FDI than older respondents. More specifically, opposition towards FDI seems to decrease gradually as we move from the oldest respondents towards younger cohorts until the cohort born in 1964-68 at which point we observe a small 'jump' in the magnitude of the associated decrease in FDI hostility after which the size of the cohort effect roughly stabilizes at around -0.22 in the combined sample (which is an effect of similar magnitude as having a university degree or expressing nationalistic views). Overall, this pattern corresponds closely to the theoretical expectation of a cohort effect induced by socialization as discussed above.

[40] Note that the birth cohort groups at each end of the spectrum are merged so that there are at least 1,000 respondents in each group.

Table 4.1. Main results

		(1) 2003 survey	(2) 2013 survey	(3) Merged
Individual-level	Born before 1929	Reference category		Reference category
	1929-33	0.01		0.01
		(0.05)		(0.05)
	1934-38	-0.04	Reference category	-0.08+
		(0.05)		(0.04)
	1939-43	-0.04	-0.00	-0.09*
		(0.05)	(0.05)	(0.04)
	1944-48	-0.07	-0.05	-0.13**
		(0.05)	(0.05)	(0.04)
	1949-53	-0.03	-0.07	-0.13***
		(0.04)	(0.05)	(0.04)
	1954-58	-0.08+	-0.06	-0.15***
		(0.04)	(0.04)	(0.04)
	1959-63	-0.09*	-0.10*	-0.17***
		(0.04)	(0.05)	(0.04)
	1964-68	-0.17***	-0.15**	-0.24***
		(0.04)	(0.05)	(0.04)
	1969-73	-0.17***	-0.15***	-0.23***
		(0.04)	(0.05)	(0.04)
	1974-78	-0.21***	-0.11*	-0.22***
		(0.05)	(0.05)	(0.04)
	1979-83	-0.21***	-0.13**	-0.23***
		(0.05)	(0.05)	(0.04)
	1984-88		-0.12*	-0.20***
			(0.05)	(0.04)
	Born after 1988		-0.19***	-0.27***
			(0.05)	(0.05)
	Household income (ln)	-0.12***	-0.02**	-0.04***
		(0.01)	(0.01)	(0.01)
	Secondary degree	-0.13***	-0.08***	-0.11***
		(0.02)	(0.02)	(0.01)
	University degree	-0.20***	-0.18***	-0.20***
		(0.02)	(0.02)	(0.02)
	Nationalism	0.32***	0.22***	0.27***
		(0.02)	(0.02)	(0.01)
	Public sector	0.08***	0.09***	0.09***
		(0.02)	(0.02)	(0.01)
	Female	0.04**	0.01	0.03*
		(0.02)	(0.02)	(0.01)

(continues)

Country-level	GDP (ln)	0.03	0.12***	0.00
		(0.03)	(0.03)	(0.02)
	GDP per capita	-0.00	-0.01**	-0.00+
	(thousands)	(0.00)	(0.00)	(0.00)
	Growth	-0.02	-0.06*	-0.02**
		(0.03)	(0.02)	(0.01)
	Inward FDI	0.00	0.01+	-0.00
		(0.00)	(0.00)	(0.00)
	Outward FDI	0.00	-0.00+	-0.00***
		(0.00)	(0.00)	(0.00)
	σ_v	0.26	0.24	0.30
	ρ	0.06	0.06	0.08
	Log-likelihood	-15731.71	-18142.34	-33939.63
	Countries	30	32	41
	Respondents	25,401	28,663	54,064

NOTES: Probit coefficients displayed. Standard errors in parentheses. Constant omitted; $^{+}p<0.1$, $^{*}p < 0.05$, $^{**}p < 0.01$, $^{***}p<0.001$.

To examine the pattern in more detail, I first assess the statistical significance of the theoretically predicted break in the data for cohorts born before/after the mid-1960s and then plot the average predicted probabilities for each cohort separately.

Table 4.2 shows the results from a series of Wald tests, which assess the statistical significance of the difference between the coefficient estimated for the 1964-68 cohort and those of all other birth cohorts in the estimations that are based on the merged dataset (Model 3 in Table 4.1). As a reminder, the IYH would predict FDI attitudes of cohorts who passed their early adulthood during a period in which the statist narrative was predominant (i.e. those born before the mid-1960s and having turned 25 years old before 1990) to be different from those who passed their prime period of political-economic socialization in the 1990s and 2000s (i.e. those born in the mid-1960s and later who turned 25 after the 1980s) when the globalization narrative was salient; at the same time, if the hypothesis is correct, attitudes should be similar among cohorts who grew up in a similar ideational environment (i.e. those born before the mid-1960s and those born after). The results from the series of Wald tests in Table 4.2 suggest that this is indeed the case: the estimated coefficient for the 1964-68 cohort is statistically significantly different from the coefficients of all older cohorts, but not statistically significantly different from the estimated coefficient for all younger birth cohorts.

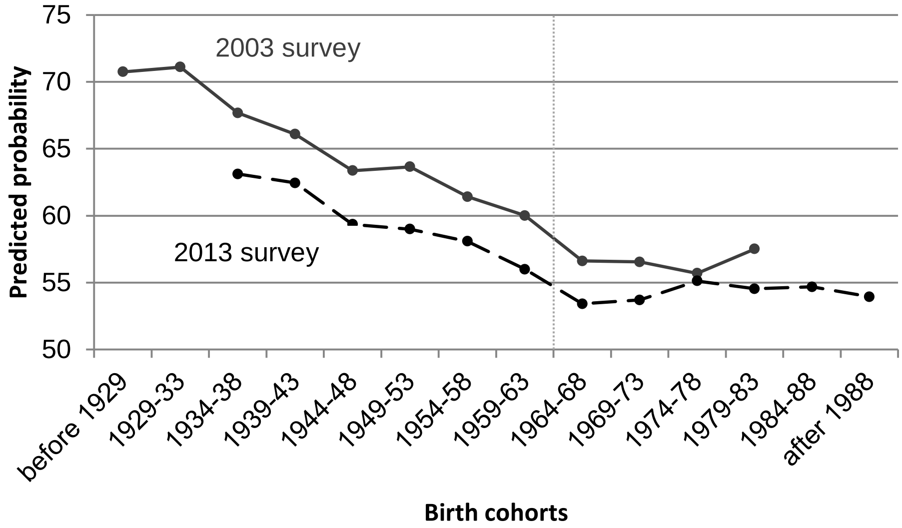
Table 4.2. Chi-square Wald test statistics assessing significance of difference in coefficient for 1964-68 cohort and coefficients of all other birth cohort categories

	1929-33	**1934-38**	**1939-43**	**1944-48**	**1949-53**	**1954-58**
1964-68	34.03***	23.45***	26.07***	15.28***	18.56***	11.88***
	1959-63	**1969-73**	**1974-78**	**1979-83**	**1984-88**	**>1988**
1964-68	7.56**	0.05	0.23	0.16	1.07	1.37

*NOTE: *p < 0.05, **p < 0.01, ***p<0.001.*

To assess the more nuanced theoretical predictions deriving from the combination of the IYH and IPH illustrated in Figure 4.1 above, I next calculate and plot the cohort-specific predicted probabilities based on the regression analyses conducted above. The results are illustrated in Figure 4.2., which shows the average predicted probability for an individual born into a specific birth cohort to express a negative view of inward FDI, taking into account the cohort-specific distribution of all individual- and country-level confounders included in the regressions[41].

Figure 4.2. Average predicted probability to express a negative view of the impact of multinational companies by birth cohort, taking into account all covariates at individual and national level listed in Table 4.1



Overall, the predicted probabilities of respondents of any cohort to express a negative view of FDI are relatively high with majorities of each cohort tending to agree with the view that international companies are harming local businesses. Yet, given the negative framing of the question and the higher levels of hostility towards FDI among non-elites typically observed in previous studies (see above) this is not altogether surprising. This being said, focusing on the evolution of predicted probabilities by birth cohorts, the pattern closely resembles the theoretical

[41] Note that the plot illustrates the *average marginal effect;* that is, the average of predicted individual probabilities given their specific covariates, and not the *conditional effect at the mean* (which evaluates the change in probability holding all other variables constant at their mean or modal value). The main advantage of the former are that they allow making inferences to the total population, while the latter, strictly speaking, only allow making inferences for the stratum of observations that have the mean or modal values. See Clemma J. Muller and Richard F. MacLehose, "Estimating Predicted Probabilities from Logistic Regression: Different Methods Correspond to Different Target Populations," *International Journal of Epidemiology* 43, no. 3 (2014). This being said, the estimated predicted probabilities using either method are very similar in this case.

expectations of the combined socialization effect illustrated in Figure 4.1 above: from a maximum of over 70 percent of the oldest respondents in the sample (born before 1934) expressing a negative view of FDI, the predicted probabilities gradually decrease for each subsequent birth cohort until it stabilizes at around 55 percent for respondents born after 1963. Moreover, crucially, predicted average attitudes of each birth cohort turned notably more *favourable* for all cohorts during the ten years that elapsed between 2003 and 2013. Because the most obvious alternative ageing mechanisms (such as the trend towards conservatism or the employment prospects hypothesis) would have predicted FDI attitudes of any specific cohort to deteriorate as respondents age by ten more years, these patterns provide relatively strong evidence against them.

Moreover, other pieces of evidence from related research projects also contribute to question the notion that it is in some sense 'natural' for younger people to have more positive views of foreign companies. Most importantly, opinion surveys conducted in the 1960s-70s – that is, in a time period in which the statist narrative was prominent – repeatedly found that younger people were *more* (rather than less) hostile towards FDI than older respondents. For example, in his analysis of the elite surveys he conducted in Britain and France in the early 1970s, John Fayerweather noted that "*younger* legislators (…) [tend to be] more adverse to foreign firms"[42] and the authors of an analysis of public opinion survey data from Canada in the 1970s wrote the following: "As in previous surveys, *young persons* are among those more likely to express negative attitudes toward foreign investment, 46 percent of the

[42] See John Fayerweather, "Elite Attitudes toward Multinational Firms," in *Host National Attitudes toward Multinational Corporations*, ed. John Fayerweather (New York: Praeger Publishers, 1982), 34.

respondents under 30 years of age in the most recent survey rating U.S. investment in the economy a bad thing in contrast with 36 percent of those over 50 years expressing a similar opinion”[43]. The observation that attitudes of young people towards inward FDI tended to be relatively more hostile in surveys conducted in the 1960s-1970s, but more favourable in the 2000s is indeed hard to reconcile with these alternative ageing mechanisms. Instead, acknowledging that the economic narratives predominant in advanced economies before the Second World War had been relatively liberal compared to the statist discourse crystallizing in the aftermath of the war (cf. Chapter 2), the results correspond closely to the pattern suggested by the argument of socialization forwarded in this thesis[44].

Assessing potential alternative explanations for the cohort effect

The existence of a generational cohort-effect in FDI attitudes in this data thus seems clear and the evidence in favour of the socialization mechanism is strong. Yet, establishing the precise causes of this effect conclusively remains a difficult task. Albeit it appears evident that, all else equal, individuals who passed their early adulthood in the 1990s and 2000s held more favourable views of inward FDI than

[43] Alex J. Murray and Lawrence LeDuc, "Changing Attitudes toward Foreign Investment in Canada," ibid., 222. [emphasis added]

[44] Furthermore, there is also more evidence from surveys available that raises questions about the employment prospects hypothesis more specifically. Summarizing the studies that had assessed whether employees of foreign companies show more favourable views of inward FDI than other workers, John Smetanka concluded: “In several of the studies (…) investigators have focused on possible differences in attitudes between executives who work for independent national firms and those who are employed by the affiliates of foreign corporations. More often than not, however, little difference in opinion has been observed from the data.” Smetanka, "Sources of Foreign Investment Attitudes: A Study of Canadian Executives," 90. See also Karl P. Sauvant and Bernard Mennis, "Are There Learning Side-Effects Associated with Employment in a Transnational Business Enterprise," in *Host National Attitudes toward Multinational Corporations*, ed. John Fayerweather (New York: Praeger Publishers, 1982).

older respondents, the data does not directly tell us why. The preceding parts of this thesis, emphasizing the degree to which *perceptions* of the role of inward FDI for national economic development have changed, strongly suggest that the evolution of predominant economic narratives played an important role in these regards. Yet, *a priori* the change in narratives is not the sole possible explanation that is consistent with this finding. In particular, it is also possible that younger cohorts adopted more favourable views not only because of the change in narratives, but also due to 'real' changes in the nature of FDI, which younger people - arguably due to their greater attitudinal flexibility - could be quicker to realize than older respondents. If this is true, then structurally driven changes in the nature of FDI could simultaneously contribute to explain the existence of the observed generational difference in attitudes towards FDI and it would be difficult to disentangle the two effects from each other.

Although I cannot completely rule out the possibility that structural changes in the nature of FDI also played a role as drivers of the cohort effect, there are several indications that make it rather unlikely that they played a major role. Most importantly, as it is discussed in greater detail in the introduction chapter (pp. 19-20), empirical investigations of the degree of change in the nature of the operations of MNCs' subsidiaries abroad have found that they have been modest, unfolding slowly and gradually over time. In other words, although these studies do suggest that the operations of MNCs have tended to become more internationally integrated over time and that the R&D intensity of FDI-related economic activities has increased slightly, these developments – unlike the simultaneous transformations in predominant economic narratives - have been of a marginal rather than a fundamental character and it seems unlikely that these incremental and rather opaque developments would have been sufficient to induce mass publics to re-think their attitudes towards FDI. What is more, even if these structural developments would in principle be able to explain the observed decreases in FDI hostility of cohort groups between 2003 and 2013, they are unable to account for the 'break' observed between cohorts born before and after the mid-1960s. After all, the available evidence on the real transformations in FDI suggests that these are gradual processes, which started long before 1990 and continue unfolding slowly until today. Accordingly, if the cohort-effect was in effect driven by these structurally induced transformations, we would expect age to continue to matter as a predictor of anti-FDI attitudes also for cohorts born after 1964-68 rather than the observed relative 'stabilization' of attitudes among all cohorts born after 1964.

Examination of the cohort effect for specific subgroups

Finally, to further examine the degree of consistency of the patterns of the observed generational cohort effect with the predictions of the socialization mechanism vs. the hypothesis of structural changes, I also analyse and compare the specific probabilities that the regression analysis predicts for various subgroups of respondents in the sample for which either of these two contending explanations would anticipate the cohort effect to be particularly strong.

As discussed in the introduction chapter, the two (supposed) structural changes in the nature of FDI that have received most attention as potential explanations for the shrinking hostility towards FDI inflows in public opinion are, on the one hand, the gradually increasing R&D-intensity of IFDI-related economic activities and, on the other hand, the weakening of MNCs' ties to their home economies and governments. While the former is believed to have improved the quality of IFDI-related jobs and MNCs' contribution to a host nation's innovation capacity, the gradual dissolution of MNCs' 'national identity' may have eased public concerns that FDI inflows would undermine host economies' political independence. In order to evaluate the extent to which it is these changes rather than the change in narratives, which have been driving the observed generational difference in FDI attitudes, I therefore proceed to examine in more detail the size of the generational effect for those specific subgroups of respondents in the sample whom we would expect to be particularly sensitive to the unfolding of such changes (to the extent that they have occurred at all; see introduction chapter).

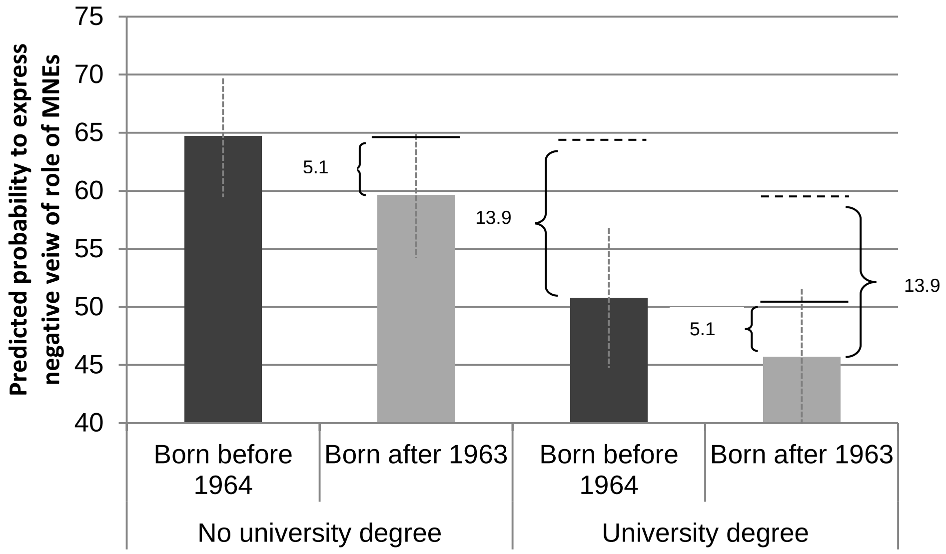
Specifically, to assess the importance of the supposed shift in IFDI-related activities from low-value adding blue collar jobs to high-value adding white collar employment as a driver of the generational difference in attitudes towards FDI, I estimate the size of the latter among the group of respondents who are most likely to benefit from such changes: that is, the highly educated and high-skilled workforce. Analogously, in order to evaluate the salience of the process of 'de-nationalization' of MNCs as a source of the observed improvement in public attitudes towards them, I also estimate the size of the generational effect for those respondents who we would expect to be most sensitive to issues of sovereignty and 'national control': that is, respondents expressing higher levels of national pride[45]. Hence, to examine the extent to which the cohort effect is conditional on respondents' level of education or strength of nationalist sentiments, I re-run the regression model 3 in Table 4.1 with the merged dataset and one dummy variable (equal to one for all respondents born after 1963) replacing the more fine-grained categorical birth cohorts variable. Figure 4.3, which shows the average individual predicted probabilities (with 95 percent confidence intervals) for each relevant subgroup of respondents and the differences among them, illustrates the findings graphically.

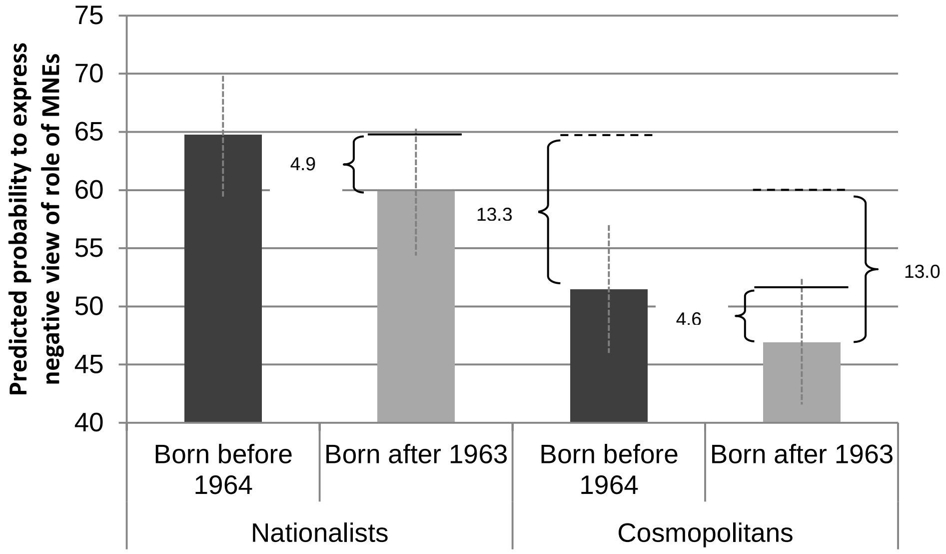
Overall, the results clearly disconfirm the hypothesis of structural changes being the principal driver of the generational difference in FDI attitudes. If the former were true, we would have expected the size of the generational difference in FDI attitudes to be particularly great either for respondents with a university degree and/or for those with strong nationalist feelings. Yet, the results show that although the subgroups of respondents with a university degree as well as those expressing a cosmopolitan identity clearly have a much more favourable view of inward FDI than their counterparts, there is nearly no difference in the size of the generational effect, which hovers around 5 percentage points in all four groups. Accordingly, the interaction effects (estimated in a separate regression model) of belonging into either subgroup and being born after the mid-1960s are also statistically insignificant ($p>0.85$ for university degree and $p>0.45$ for nationalism). Although these results *per*

[45] The division of respondents into 'nationalist' and 'cosmopolitan' subgroups is based on individual agreement with the statement 'I would rather be a citizen of [COUNTRY] than any other country in the world', as before.

se do not demonstrate that the described structural changes didn't happen and/or that they had no influence on how individuals assess inward FDI, they nonetheless do provide further empirical support against the claim that such developments were the major driver of the observed generational difference in FDI attitudes.

Figure 4.3. The size of the cohort effect for groups of respondents presumably most sensitive to gradual changes in nature of FDI





Finally, I use the same strategy in order to examine the consistency of the patterns of the identified cohort effect with more specific predictions that can be derived from the hypothesis of socialization and narrative change. Specifically, I aim to evaluate the size of the generational difference for those specific subgroups of respondents whose exposure to the statist narrative was particularly pronounced during the 1960s-70s. If the hypothesis of socialization is correct, then the older generations of these specific subgroups should express particularly hostile views towards FDI, while this 'add-on' hostility should have largely disappeared among younger generations of the same subgroup.

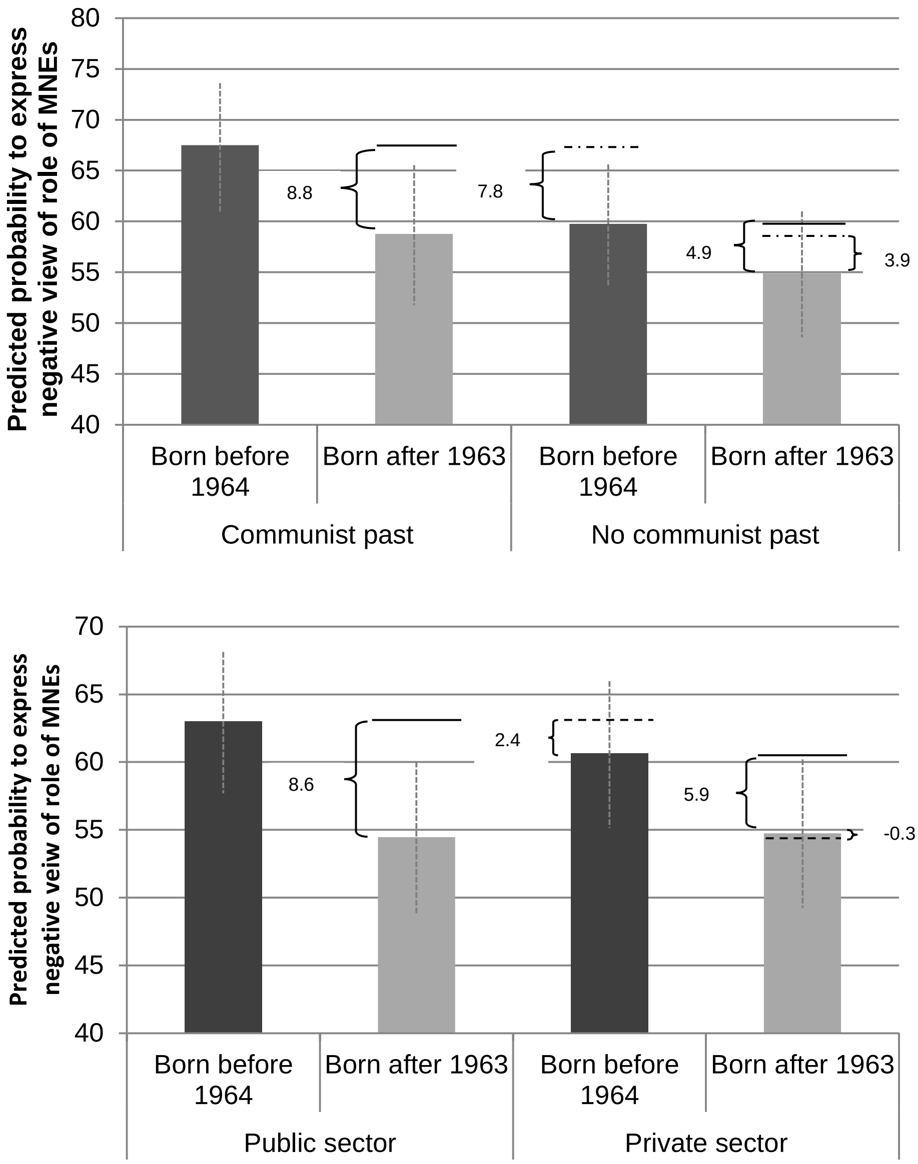
To test this hypothesis, I look at two specific subgroups: respondents from formerly communist countries[46] and public sector employees. As it is well known, communist ideology was particularly hostile towards foreign companies of Western origins (which account for a large majority of total global FDI flows)[47]. Accordingly, to the extent that the observed generational difference in FDI attitudes is driven by individuals' exposure to specific economic narratives, we would expect individuals who passed their schooling and early adulthood in an ideational context marked by the communist version of economic statism to have particularly sceptical views of inward FDI. In contrast, although the priming of older generations with anti-FDI views may of course to some extent 'trickle down' to their descendants, we would expect younger generations - who spent their prime period of socialization after the transition to capitalism - to hold notably more favourable views. In other words, we would expect the impact of being 'old' or 'young' to make a greater difference among subgroups of respondents from formerly communist countries than for those

[46] That is those countries in the ISSP sample formerly part of the Soviet Union or Yugoslavia.
[47] See, for example, Nina Bandelj, *From Communists to Foreign Capitalists* (Princeton and Oxford: Princeton University Press, 2008).

from countries without a communist past if the hypothesis of socialization is true. The expected difference in attitudes of different generations of public sector and private sector employees is very similar. The reasoning behind the comparison is based on the assumption that public sector employees, finding themselves by definition in closer proximity to government institutions than their peers working in the private sector, are more strongly exposed to the economic narratives that a government promotes. Accordingly, if the socialization hypothesis is true, we would expect the generational shift in FDI attitudes to be more pronounced among respondents working in the public sector than those employed in the private sector.

The results of the corresponding statistical analyses are presented in graphical form in Figure 4.4. In both cases, the results clearly confirm the predictions of the socialization hypothesis: IFDI attitudes of older generations of respondents in formerly communist countries are exceptionally hostile and they are somewhat more hostile for older generations of public sector workers than for their peers employed in the private sector; furthermore, the size of the generational cohort effect is substantially larger among subgroups of respondents in formerly communist countries (8.8 vs. 4.9 percentage points) and among public sector workers (8.6 vs. 5.9 percentage points) than among their peers in countries without a communist past or not working in the public sector, as the socialization hypothesis predicts. Accordingly, the relevant interaction terms (estimated in separate regression analyses) are statistically highly significant for the case of communist legacy ($p<0.001$) and close to being significant for public sector employees ($p<0.13$).

Figure 4.4. The size of the cohort effect for groups of respondents highly exposed to statist narrative before 1990



In sum: although the possibility that structural changes in the nature of FDI unfolding in parallel to the changes in economic narratives simultaneously contributed to tilt individuals' assessment of FDI inflows into a more positive direction cannot be excluded completely, the results of these additional analyses are highly supportive of the contention that the mechanism of socialization likely played a greater role in the generation of the observed generational difference in FDI attitudes than potential alternative mechanisms.

Conclusions

Previous work in the fields of social psychology and sociology examining the formation of attitudes throughout the lifespan of individuals has found strong evidence that political and economic core beliefs are primarily formed during late adolescence and early adulthood and that the likelihood that individuals change these views decreases fairly rapidly thereafter. Applying this insight to the case of inward FDI, I have analysed the evolution of relevant attitudes for different birth cohorts in two large cross-national public opinion surveys conducted by ISSP. In accordance with the argument pursued in this thesis, the analysis found clear and strong evidence of a generational cohort effect which shows that individuals who passed their prime period of political-economic socialization in the 1990s and 2000s when the narrative of globalization was prominent hold more favourable views of inward FDI than older respondents who grew up in a historical environment in which the statist narrative was still strong. In addition, further analyses have shown that the distinct features of the cohort effect, while being strongly consistent with the hypothesis of socialization and narrative change, largely disconfirm the more specific predictions that can be derived from potential alternative explanations for the observed patterns such as other ageing-related processes (e.g. natural trend towards conservatism or employment prospects hypotheses) or structural changes in the nature of FDI. As such, while the previous two chapters have focused primarily on the transformations in the social representation of inward FDI among policy specialists, the analysis presented in this chapter shows that the simultaneous evolution of public opinion is highly consistent with these ideational developments. Although mass public attitudes towards inward FDI generally remained more sceptical than those of policy elites, the most pronounced concerns seem to have gradually dissipated from the early 1990s onwards. The political consequences of these changes in public opinion in advanced democracies are assessed in more detail in the following chapter.

Chapter 5 . A POLITICAL BANG FOR THE FOREIGN BUCK? VOTING BEHAVIOUR AND ELECTORAL EFFECTS

The preceding parts of this thesis have demonstrated the profound changes in the meaning ascribed to inward FDI in dominant economic discourses throughout the post-war era and the corresponding gradual easing of public attitudes towards issues of foreign company ownership, especially among younger people. As I have shown in previous chapters, from the late 1980s onwards when the globalization narrative started to gain a strong foothold in policy debates, economic experts and policymakers have become increasingly sanguine about FDI inflows. Simultaneously, public opinion at large – although remaining somewhat more reserved in its assessment of the desirability of attracting foreign companies – also turned notably more favourable towards IFDI as the most prominent concerns about the potential negative consequences of foreign companies seemingly started to dissipate. The aims of the present chapter are to assess whether and how these observed trends are reflected in voting behaviour. To do so, I analyse the correlations between relative increases in FDI inflows and the vote share of incumbent parties in over 200 general elections in 21 advanced democracies between 1970 and 2007, using the so far most extensive dataset of its kind provided by Jeff Chwieroth and Andrew Walter[1].

FDI inflows are, of course, normally not the most salient issue on voters' minds when they go to the polling station. Nonetheless, the available evidence clearly

[1] Chwieroth and Walter, "From Low to Great Expectations: Banking Crises and Partisan Survival over the Long Run."

suggests that it is one factor - among many others - that they do (respectively did) take into account. Aligned with theoretical expectations and the results of the public opinion analysis presented in the previous chapter, the analysis finds that voters reacted negatively to increases in FDI inflows when the statist narrative was prominent, but largely ceded to do so after the rise of the globalization narrative towards the end of the Cold War. As such, the results do not only provide further evidence from large-n cross-national data in support of the theoretical claims made in this thesis, but they also elucidate some of the mechanisms that make economic narratives potentially politically more powerful than more 'scientific' types of economic knowledge. Although it remains clear that voters do not make FDI policies themselves, as I will discuss in more detail, empirical evidence suggests that voter preferences nonetheless play an important role in democratic systems as an enabling or constraining force that affects the extent to which policy specialists are able to pursue their preferred policy.

Economic performance and voting behaviour: towards a realistic model of retrospective economic voting

An influential stream of literature in political science has argued that voters select political leaders based on their past performance and the policies they propose, thereby holding incumbents responsible for their actions[2]. Other authors have

[2] For overviews, see Michael S. Lewis-Beck, *Economics and Elections : The Major Western Democracies* (Ann Arbor: University of Michigan Press, 1988); Helmut Norpoth, Michael S. Lewis-Beck, and Jean-Dominique Lafay, *Economics and Politics : The Calculus of Support* (Ann Arbor: University of Michigan Press, 1991). G. Bingham Powell and Guy D. Whitten, "A Cross-National Analysis of Economic

criticised such models as being underpinned by idealistic views of democracy, which conceptualize citizens as overly sophisticated political actors and over-rationalize their voting behaviour. In a particularly powerful recent critique of these models, Christopher Achen and Larry Bartels[3] persuasively argue that citizens are typically disinterested in actual policy programs or past policy outcomes and that their voting behaviour is instead largely determined by social identities and partisan loyalties acquired during childhood as well as voters' feelings about the 'nature of times'[4] rather than any objective assessment of incumbent governments' political and economic performance. Demonstrating that voters repeatedly reward or punish incumbents for things that are clearly unrelated to the policy programs they adopt – such as bad weather or shark attacks -, Achen and Bartels question whether voters have the ability (or if they are even interested) to hold political leaders accountable. Instead, they argue, it is "social identities that shape how voters think, what they think and where they think they belong" in the party system[5]. Ultimately, Achen and Bartels contend, when voters go to the polling station, rather than expressing their individual policy preference, they generally simply follow the policy prescriptions that the relevant political parties, media outlets and social groups have defined for them.

Voting: Taking Account of the Political Context," *American Journal of Political Science* 37, no. 2 (1993); Michael S. Lewis-Beck and Martin Paldam, "Economic Voting: An Introduction," *Electoral Studies* 19, no. 2 (2000).
[3] Christopher H. Achen and Larry M. Bartels, *Democracy for Realists : Why Elections Do Not Produce Responsive Government* (Princeton: Princeton University Press, 2016); "Democracy for Realists: Holding up a Mirror to the Electorate," *Juncture* 22, no. 4 (2016).
[4] "Democracy for Realists: Holding up a Mirror to the Electorate," 269.
[5] Ibid.

Although their work is framed as a challenge to the idea of retrospective voting, much of it is not necessarily inconsistent with the key findings of that literature. A closer look at the economic voting literature reveals that most proponents of these models do not claim that past economic performance invariably determines election outcomes, but merely that they are one group of factors that influence voting behaviour. For example, an authoritative review of the literature concludes that economic performance is able to explain about one third of the variation in vote changes[6] - in other words, it leaves two thirds unexplained. Moreover, most studies of economic voting concur that the typical processes underlying voters' evaluation of past performance are not overly sophisticated. For example, the literature has found that voters tend to be myopic (that is, they have relatively short time horizons), that they react more to past rather than expected events and more to negative rather than positive changes, and that they seem to be more strongly motivated by sociotropic rather than egocentric concerns[7]. Furthermore, the literature's finding that voters react to changes in indicators of economic performance - such as rates of economic growth, inflation or unemployment – does not necessarily imply that voters actively collect and analyse those statistics. Instead, more plausibly, changes in those statistics proxy for broader economic developments, which affect how the media, political parties and other social groups talk about the government and how they frame the 'nature of times'[8]. Individual voters thus must not necessarily be aware of the latest quarter's economic statistics for the latter to have an influence on how they vote, but it is sufficient if these economic developments influence the political

[6] Lewis-Beck and Paldam, "Economic Voting: An Introduction," 114.
[7] Ibid.
[8] Achen and Bartels, "Democracy for Realists: Holding up a Mirror to the Electorate."

discourse of the social authorities of an individual's specific social group. In this sense, economic statistics are best understood as *proxies* that indicate the general economic sentiment and discourse that is predominant at any given point in time and voters are not assumed to react directly to these statistics, but to the broader economic dynamics that simultaneously determine these indicators and the generally predominant economic discourse among the media and public. To give an example: most voters are probably unable to recall the exact national economic growth or inflation rates of the last quarter; but, instead, it is likely that the levels of recent economic growth and inflation rates are reflected in the media's general discourse about the performance of the economy and that voters, in turn, are aware of the latter. If growth rates are increasing, the general assessment of economic performance in the media is more likely to be positive; if inflation rates are increasing, this is likely to be reflected in an economic discourse emphasizing economic instability and uncertainty, etc. In this sense, voters do not reward or punish incumbent governments for the evolution of economic indicators *per se*, but for the general economic discourse that the dynamics that underlie their evolution give rise to.

While a majority of previous studies of economic voting have analysed the effect of changes in rates of economic growth, inflation or unemployment, this study is primarily interested in the impact of changes in the levels of FDI inflows. It is worth repeating that by analysing how increases or decreases in relative levels of FDI inflows affect an incumbent's vote share, I do not assume that levels of FDI inflows are generally the primary concern of average voters on election day and/or that voters carefully study the latest FDI statistics before casting their ballot. I only contend that during certain time periods, which I specify in the next section, levels of FDI inflows were one amongst a larger number of other factors that had some influence on how the media and political groups portrayed the incumbent government in their discourse, which in turn marginally affected the level of voter support for incumbent governments at general elections.

Elections and inward FDI

As previous chapters have elaborated in some detail, predominant attitudes towards inward FDI were largely negative during the 1960s-70s when the statist narrative was prominent. Public opinion tended to consider foreign ownership as an economic evil and also FDI policy specialists, although more nuanced in their overall assessment of the benefits and risks of inward FDI, were strongly focused on the potentially harmful implications of FDI inflows. As we have seen, throughout the 1980s attitudes towards inward FDI became gradually more favourable and in the 1990s policy specialists started to consider FDI as an overwhelmingly 'good thing'. Public opinion in the 1990s-2000s did not necessarily embrace the enthusiasm for FDI emerging among economic experts and policymakers at the same time, but it certainly became more welcoming towards foreign investors, as the analysis of public opinion data presented in the previous chapter has clearly shown. Maybe most importantly in these respects, despite the rapidly increasing levels of inward FDI throughout the developed world in the 1990s-2000s, the media and the public at large ceded to be too concerned about the issue of foreign ownership *per se*, allowing inward FDI to gradually turn into a largely uncontroversial political 'non-issue'.

Aligned with these observations, one would expect growing levels of foreign ownership in an economy to have reflected negatively upon the image of the incumbent government while the statist narrative was strong and, accordingly, increases in FDI inflows to have been punished by voters at general elections before the 1990s; at the same time, to the extent that the decreasing hostility towards FDI inflows observed in public opinion data is reflected in voting outcomes, one would expect this negative association having dissipated – and maybe even turned positive – at elections held after the end of the Cold War when foreign ownership ceded to be a salient political issue.

The salience of FDI inflows in public opinion before the 1990s

The key assumption that has to hold for the hypothetical negative association between FDI inflows and an incumbent's vote share before 1990 to be plausible is that the media and voters cared enough about the issue of foreign ownership for it to have at least a marginal effect on election outcomes. The available evidence in these regards from a range of countries suggests that this was indeed the case.

For example, in a survey conducted in Canada in 1975-76, which asked business executives about 'the most important issue facing Canada', no less than 12.4 percent of respondents mentioned 'US investments in Canada'[9]. Similarly, surveys conducted in the UK and France in the mid-1970s found that 7.8 percent of British MPs and 18.5 percent of French MPs identified 'foreign MNCs' as 'the most pressing issue in international economic affairs'[10]. Although by no means suggesting that FDI was the top priority in politics and government affairs at the time, these figures nonetheless strongly suggest that IFDI clearly was a salient political issue at the time.

As discussed in Chapter 2, investments from US multinationals were an eagerly debated issue in Western Europe and Canada in the 1960s-70s that received a lot of public attention. Two contemporary observers of Canadian politics, for example, noted in the mid-1970s that the rise of the economic nationalist discourse promoted in particular by Walter Gordon (MP of the Liberal Party and Minister of Finance from 1963-65) in the late 1950s and early 1960s[11] had ended the period in which foreign investments were a topic reserved for nerdy policy specialists, as ordinary "Canadians began to formulate opinions toward specific public policies dealing with [the] regulation of incoming foreign investment"[12] and a radical wing of the New Democratic Party, at least for some time, elevated calls for the nationalization of foreign firms to the top of their agenda[13]. Furthermore, as the notable number of surveys of public attitudes towards FDI conducted at the time suggest, ordinary people did not only form opinions, but their opinions also mattered to government leaders. For instance, at least one political observer claimed that the creation and

[9] See Smetanka, "Sources of Foreign Investment Attitudes: A Study of Canadian Executives."
[10] See Graham, "Developed Countries and Multinational Corporations: Threat Perception and Policy Response in France and the United Kingdom," 241.
[11] For a detailed analysis of his role, see J. L. Granatstein, *Yankee Go Home? : Canadians and Anti-Americanism* (Toronto: HarperCollins, 1996), Chapter 6.
[12] Murray and LeDuc, "Changing Attitudes toward Foreign Investment in Canada," 216.
[13] Ibid., 218.

design of Canada's Foreign Investment Review Agency in 1973 was directly "based on [the] analysis of trends in national polls"[14].

At the same time, the political climate for foreign investments was similar in the United Kingdom and France – the two cases which are analysed in much more detail in the subsequent chapter – as well as many other European countries. For example, the layoffs at the French subsidiaries of *General Motors* and *Remington* as well as *Chrysler*'s acquisition of a majority stock in French carmaker *Simca* in the early 1960s were highly salient political topics in France, which moved inward FDI right into the spotlight of public debates. One observer commented that "public opinion was (…) inflamed" about the issue of foreign ownership, claiming that it was "the impact of these events on French attitudes (…) [which] led to a period of restrictive regulation of foreign (especially U.S.) direct investment"[15]. Although it is of course difficult to discern the real impact of public opinion on the adoption of specific FDI policies, it is interesting to note that President De Gaulle forwarded several proposals to restrict inward FDI with great publicity shortly before the presidential elections of 1965[16]. And the fact that Jean-Jacques Servan-Schreiber's essay *Le défi américain* topped French bestseller lists for months leaves little doubts about the public interest in questions of FDI at the time[17]. Furthermore, public debates about inward FDI in France were not constrained to the De Gaulle period but remained on the political agenda well into the 1970s and early 1980s as the French Left increasingly "sought to

[14] In John Fayerweather, "A Review of the State of the Art," ibid., 330.
[15] Norman Graham, "Developed Countries and Multinational Corporations: Threat Perception and Policy Response in France and the United Kingdom," ibid., 251.
[16] Ibid., 252.
[17] Simultaneously, its translation into fifteen languages is highly suggestive that these public debates about inward FDI were attracting attention far beyond French borders.

make an issue out of the threat of MNCs" after De Gaulle's resignation in 1969, using the gradual increases in foreign investments as an opportunity to accuse the conservative government of 'selling out' to foreign capitalists[18].

In the United Kingdom too, groupings of the political Left, in particular the Labour party and trade unions, effectively used the supposed negative impacts of MNCs and controversies involving foreign companies as welcome "opportunities to criticize government policy and further politicize the[se] issues"[19] while occupying the opposition benches in the early 1970s. Illustrating the real publicity and political importance of the IFDI issue at the time, a contemporary observer reported that the Conservative Heath administration was reluctant to impose restrictions on inward FDI, but was "worried to lose votes" if they didn't do so[20] while the Labour party, at the same time, made highly publicized pledges to impose stricter regulations on foreign multinationals during their campaign for the 1974 general elections (which they narrowly won)[21].

And also in the United States, as we have seen in Chapter 2, FDI inflows became a vigorously debated political topic in the 1970s-80s when "the xenophobic sentiment of the U.S. public (was)… fanned by the alarmist news coverage of the IFDI issue"[22] and the "view that the public was concerned about increased foreign ownership of domestic firms received such frequent airing in the media as to become conventional

[18] Graham, "Developed Countries and Multinational Corporations: Threat Perception and Policy Response in France and the United Kingdom," 259.
[19] Ibid., 264.
[20] Ibid.
[21] Ibid., 266.
[22] Kang, "Us Politics and Greater Regulation of Inward Foreign Direct Investment," 311.

wisdom"[23]. As discussed, US public opinion was strongly in favour of the introduction of restrictions of foreign investment inflows in the 1970s-80s – several polls finding that at least three quarters of the population supported calls for a greater regulation of inward FDI –, encouraging a variety of congressional initiatives in these regards (most importantly the creation of the CFIUS review process)[24] and making it a prominent topic in Michael Dukakis' unsuccessful bid for the White House in 1988[25].

FDI as a political 'non-issue' in the 1990s-2000s

In the aftermath of the end of the Cold War when the globalization narrative rose to prominence, such debates largely (although not entirely) disappeared from the political landscape in advanced democracies. Presenting evidence of events that haven't occurred is of course difficult. But as I have discussed in some more detail in Chapter 3, against the background of the heated debates about FDI in the 1960s-80s, the rarity of political controversies surrounding FDI inflows after 1990 is truly remarkable, especially in view of the extraordinarily rapid increases in levels of foreign ownership observed across the developed world during the same period. The somewhat 'surprising silence' of the *Council of Canadians* after the US take-over of the *Hudson Bay Company* (see p. 166) and a similar non-response of nationalist groupings in the USA towards the surge of foreign investments in the late 1990s (see

[23] Ibid.
[24] See the excellent discussion of these processes in ibid.
[25] During which he called for "Americans to buy back industries and land from the Saudi Arabians, the Kuwaitis, the Japanese and the Europeans". See Timothy McNulty and George Curry, "Dukakis, Bush Maneuver into Debate Position," *Chicago Tribune*, 20 September 1988.

p. 159) have already been mentioned. Similarly, as I will discuss in more detail in the next chapter, the number of parliamentary debates in the UK merely mentioning the word 'take-over' – after reaching a peak in the late 1980s – almost disappeared in the 1990s and 2000s (see Figure 6.3, p. 271).

Of course this does not necessarily mean that public opinion was now all in favour of FDI. As the public opinion analysis in the previous chapter has suggested, although growing increasingly favourable over time, public opinion remained fairly divided about the issue of foreign ownership – especially when it involves the takeover of domestic firms rather than greenfield investments[26] - when the question was elicited explicitly. In this sense, it seems plausible to suggest that the importance of the rise of the globalization narrative on public opinion towards FDI and foreign ownership consisted not only of the favourable description of the meaning of FDI inflows it provided, but, equally importantly, its conceptualization of international economic integration as an 'inevitable' fact of modern economic life that has to be simply accepted and which was not worth being questioned or debated; a political 'non-issue', in short.

Empirical strategy

Thus, while being a controversial and relatively salient political topic in the 1960s-80s, public opinion towards FDI inflows turned notably more favourable in the 1990s-2000s when foreign ownership lost much of its salience as a political issue in

[26] See Pew Research Center, "Faith and Skepticism About Trade, Foreign Investment," (2014).

the developed world. To empirically test the political implications of these ideational developments, the current section analyses the relationship between relative FDI inflows and voter support at general elections in advanced democracies. More specifically, according to the observations made above, the hypothesis I am interested to test is the prediction that relative increases in FDI inflows were associated with a lower support for incumbent governments before 1990, but not thereafter.

To test this argument, I use a dataset provided by Jeffrey Chwieroth and Andrew Walter[27] that includes information on the popular vote share of the incumbent government in 221 general elections held in 21 OECD economies[28] from 1970 to 2007 to estimate a pooled cross-sectional OLS model of the following form:

$$\Delta\ Incumbent's\ vote\ share_{it} = \alpha_i + \beta FDI\ inflows/GDP_{it-1} + \gamma Z_{it-1} + \varepsilon_i$$

To take the distinct logics of majoritarian and proportional electoral systems into account, I use two distinct dependent variables[29]: the first dependent variable indicates the change in vote share of the incumbent lead *party*, the second the change in vote share of the incumbent *coalition*. In cases of single-party governments, the two variables are identical. In cases of coalition governments, the *party* variable measures the change in the level of support of the party of the Prime Minister at the election at time t minus its support at the previous general election, while the

[27] Chwieroth and Walter, "From Low to Great Expectations: Banking Crises and Partisan Survival over the Long Run."
[28] The 21 countries are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and the United States.
[29] As suggested by Lewis-Beck and Paldam, "Economic Voting: An Introduction."

coalition variable measures the change in support for the sum of the popular vote share from the previous general election to t *for all parties who were part of the government*[30].

The main explanatory variables of interest are measurements indicating a country's levels of FDI inflows before the election. Because there is no consensus in the economic voting literature on how to model how voters and/or the media process information about changes in economic indicators, I opt to operationalize it in three distinct possible ways and to assess the consistency of the results under different modelling assumptions: First, in the simplest model, I use the value of FDI inflows as a share of GDP in the year before the elections[31] (see Models 1-4). This model corresponds to a view of voters and the media as myopic retrospective evaluators of economic information. Second, I calculate the change in average FDI inflows as a share of GDP *during the term in office of the incumbent* at time t in the years immediately preceding the election minus the average FDI inflows as a share of GDP during the period in office of the previous government (see Models 5-8)[32]. This operationalization is intended to mirror the reasoning process of retrospective but fairly sophisticated journalists and voters who compare the performance of the incumbent government primarily to the performance of the previous government. Third, I calculate the *comparative* levels of FDI inflows as a share of GDP (see Models

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[30] All political parties that have at least one cabinet member at the time of the election are classified as part of the government.
[31] Note that I use the lagged value of FDI inflows and deliberately ignore FDI inflows in the election year itself.
[32] For example, general elections were held in Italy in 1976, 1979 and 1983; in this case, for the 1983 election the variable $\Delta FDI\ inflows_{(t>i>t-1)-(t-1>i>t-2)}$ captures the average FDI inflows as a share of GDP in the years 1980, 1981 and 1982 minus the average FDI inflows as a share of GDP in 1977 and 1978. Note that, just like before, I am again ignoring FDI inflows in the election year itself.

9 to 12). To do so, I measure the distance of the country-specific ratio from the sample mean in the year before the election. This operationalization reflects a model of political commentators and voters as economic analysts who compare the performance of the incumbent government primarily to the simultaneous performance of its peer countries (rather than the performance of the previous government) [33].

Furthermore, I include the most important control variables suggested by the existing literature on economic voting: To take election cycle dynamics into account, I include both the incumbent party's – or coalition's (depending on the relevant dependent variable) - vote share at the previous election, as well as the 'swing' to the incumbent party/coalition from the penultimate to the last election to account for the 'overstatement' of a party's/coalition's real base of support[34]. To control for other dimensions of economic developments, I include measurements of economic growth – an indicator of economic performance - and inflation – an indicator of economic stability. In each model, the economic growth and inflation measurements are calculated in a manner that is analogous to the operationalization of the respective FDI measurement that is used.

Note that the annual structure of the data does not allow me to distinguish economic developments in the months before or after the general election during election years. Therefore - as well as to somewhat reduce the presence of potential

[33] As suggested by Powell and Whitten, "A Cross-National Analysis of Economic Voting: Taking Account of the Political Context."
[34] As suggested in the seminal contribution to the economic voting literature by ibid. In addition, Powell and Whitten (1993) also suggest including a dummy variable for minority governments. This is omitted here because it is not available in my dataset.

endogenous relationships between election results and economic indicators - the models only consider economic developments up to the year before the election.

Results

The main results are presented in Table 5.1. The findings for the control variables are broadly consistent with the existing literature. Higher rates of economic growth are associated with increases in voter support for incumbent governments in all models and the positive relationship is statistically significant in about half of the specifications. In alignment with previous studies, the relationship between inflation rates and voter support for incumbent governments is less clear. As expected, the level of voter support of the incumbent party/coalition at the previous election, as well as the vote 'swing' from the penultimate to the last election are consistently negatively related to the vote share of incumbents at time t.

The coefficients of principal interest relate to the association of FDI inflows with voter support for incumbent governments. Given the hypothesis to be tested, the key focus centres on the comparison of the relationship between increases in FDI inflows and incumbent's vote shares before and after 1990. Strongly confirming the theoretical predictions, the observed negative association between FDI inflows and voter support for incumbent governments is of considerably smaller size in elections held after 1990 than before: In the 1970s and 1980s, increases in FDI inflows of one percentage point of GDP are associated with a decrease in voter support for incumbent governments of between 1.5 and 2.5 percent, but only between 0.2 and 0.7

percent in the 1990s and early 2000s. Furthermore, the negative relationship is statistically significant in four of six specifications in elections before 1990 and only in two of six thereafter. To summarize: a typical close to sample-average 0.2 percentage point increase (decrease) in FDI inflows as a share of GDP was thus associated with a relatively small but consistent decrease (increase) in voter support of around 0.3 to 0.5 percent before 1990, while there is ultimately no clear association in the 1990s and 2000s.

Table 5.1. Main results of the economic voting analysis

IV	FDI inflows/GDP (t-1)				Δ FDI inflows/GDP during incumbency				Comparative FDI inflows/GDP (t-1)			
Period	1970-1989		1990-2007		1970-1989		1990-2007		1970-1989		1990-2007	
DV	Party	Coalition	Party	Coalition	Party	Coalition	Party	Coalition	Party	Coalition	Party	Coalition
Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
FDI inflows/GDP (t-1)	-1.53* (0.87)	-1.62* (0.91)	-0.25 (0.22)	-0.26 (0.25)								
Δ FDI inflows/GDP during incumbency					-2.51 (1.68)	-2.64 (1.80)	-0.15 (0.20)	-0.19 (0.22)				
Comparative FDI inflows/GDP									-1.61* (0.85)	-2.00** (0.88)	-0.69** (0.24)	-0.56** (0.29)
Growth (t-1)	0.55** (0.25)	0.50* (0.26)	0.63 (0.39)	1.12** (0.48)								
Δ Growth during incumbency					0.34 (0.28)	0.18 (0.32)	0.89** (0.37)	1.06** (0.42)				
Comparative growth (t-1)									0.43 (0.28)	0.33 (0.28)	0.73 (0.43)	1.11* (0.58)
Inflation (t-1)	-0.004 (0.116)	0.005 (0.12)	-0.26 (0.22)	-0.31 (0.25)								
Δ Inflation during incumbency					0.09 (0.13)	0.12 (0.16)	-0.15 (0.29)	-0.25 (0.33)				
Comparative inflation (t-1)									0.08 (0.11)	0.09 (0.12)	-0.20 (0.24)	-0.27 (0.28)
Vote share incumbent party at previous election	-0.13** (0.05)		-0.19** (0.08)		-0.18** (0.07)		-0.17** (0.08)		-0.14*** (0.05)		-0.23*** (0.07)	
Vote share incumbent coalition at previous election		-0.11* (0.06)		-0.09 (0.07)		-0.05 (0.06)		-0.12 (0.07)		-0.06 (0.05)		-0.08 (0.07)
'Swing' towards incumbent party	-0.12 (0.11)		-0.09 (0.12)		-0.16 (0.11)		-0.17 (0.13)		-0.13 (0.11)		-0.06 (0.12)	
'Swing' towards incumbent coalition		-0.18* (0.10)		-0.13 (0.13)		-0.25** (0.12)		-0.14 (0.14)		-0.21** (0.10)		-0.12 (0.13)
N	106	102	100	94	75	73	93	88	112	108	100	94
R-square	0.15	0.12	0.14	0.11	0.18	0.10	0.15	0.12	0.15	0.11	0.15	0.12

NOTE: Standard errors in parentheses; **p* < *0.10*, ***p* < *0.05*, ****p* < *0.01*

Discussion

Although the research design underlying the analysis does not allow making strong claims about causal relationships in the data and the findings are not conclusive as such, the identified patterns of association are highly suggestive and strongly aligned with the theoretical argument elaborated above: before the 1990s, when the statist narrative was prominent and foreign ownership of domestic companies was framed as a controversial political issue, voters punished incumbent governments for relative increases in FDI inflows; in contrast, after the end of the Cold War when the narrative of globalization became predominant, taking away a lot of the heat of the political debates surrounding inward FDI, voters' concerns about foreign ownership dissipated and, as a result, they largely ignored the sharp increases in FDI inflows observed in the 1990s and 2000s, which did not elicit any clear reaction by voters at the ballot boxes.

What do and what *don't* these findings imply? It is clear that these results do *not* suggest by any means that FDI inflows are - or ever were – the principal driving force of general election outcomes. Even in the heyday of economic nationalism in the 1960s, they were only one – and generally by far not the most important – consideration that the media and political groups took into account when shaping the debates surrounding general elections. Indeed, given the relatively low amount of variance in election outcomes that even the most sophisticated models of retrospective voting are able to explain, it seems fair to suggest that it is typically idiosyncrasies peculiar to each election that normally 'decide' elections. But nonetheless, at the same time the evidence also clearly suggests that election outcomes do have a systematic component, which has a marginal effect on outcomes that can be important. As discussed, a relative increase in FDI inflows as a share of GDP of around 0.2 percent typical of the 1970s-80s was systematically associated with a loss in incumbents' vote share of around 0.3 to 0.5 percent. Although this effect is relatively small in substantive terms, it can nonetheless be crucial for a candidate seeking re-election in a close race.

Does this imply that ultimately it is voter preferences, which drive FDI policies? Again, the empirical record suggests that the dynamics and interactions between predominant economic narratives, the media, voters, politicians and policymakers are rather more complicated. In general terms, it seems safe to argue that the principal driver of the design and implementation of specific inward FDI policies are policy specialists; and as long as an issue's political salience is low, they tend to give little consideration to voter preferences[1]. Accordingly, in times during which the media and the wider public – and as a result, politicians - have no peculiar interest in the topic of foreign ownership, the key determinants of FDI policies during such 'normal' times are the dynamics of bureaucratic politics and the policy ideas salient among these epistemic communities. However, if the political salience of inward FDI is high, politicians – keen to gain the attention of voters – have incentives to get involved in issues surrounding FDI policy-making and to be responsive to relevant trends in public opinion. This does not mean that voter preferences necessarily override the preferences of policy specialists if they collide during periods of high salience, but it does suggest that public opinion can be an important *ancillary* force

[1] For a similar argument, see Pepper D. Culpepper, *Quiet Politics and Business Power: Corporate Control in Europe and Japan* (Cambridge; New York: Cambridge University Press, 2011).

that can either *constrain* or *encourage* the adoption of policies that government administrations prefer during such periods.

Several instances from the period in which the salience of the statist narrative – and hence the issue of foreign ownership – was high can usefully illustrate these dynamics. For example, in Canadian politics in the early 1970s increased public hostility towards foreign companies clearly played a role as a catalyst of the implementation of restrictive measures towards FDI. In their account of these events, Lawrence LeDuc and Alex Murray emphasize that "the [Trudeau] government was slow in adopting a comprehensive policy *until it was convinced that public opinion was supportive*"[2] and that, when announcing the new regulations, the government spokesman "referred specifically to trends in public opinion, even citing the polls"[3]. In a similar scenario of public opinion as an encouraging force, there is also evidence from France suggesting that changes in public mood played an important role when the public outrage about the layoffs at large US MNCs in the mid-1960s, in the words of Norman Graham, "reinforce[ed] President de Gaulle's [personal] apprehensions"[4], encouraging him to adopt the restrictive measures he had been deliberating previously.

On the other hand, policy developments under De Gaulle's successors - who reportedly held relatively more favourable views of the role of inward FDI - are helpful to illustrate the function of public opinion as a constraining force. Graham

[2] Murray and LeDuc, "Changing Attitudes toward Foreign Investment in Canada," 220. [emphasis added]
[3] Ibid.
[4] Norman Graham, "Developed Countries and Multinational Corporations: Threat Perception and Policy Response in France and the United Kingdom," ibid., 251.

writes that "[Georges] Pompidou had been a voice for moderation on foreign investment within the de Gaulle administration [and] given the needs of the economy, he soon [after his election] began a gradual relaxation in the restrictiveness of French policy, *at least to the degree permitted by public opinion.*" Similarly, he recounts that the attitudes towards FDI expressed by Valéry Giscard D'Estaing, French President from 1974 to 1981, "became much more favourable [during his service as Pompidou's finance minister]. However, after being elected president, he maintained a low profile in his public statements on the subject [because] policy on foreign investment remained a point of contention with the French left"[5]. FDI policy-making processes in the United States in the 1970s-80s suggest the existence of similar dynamics as the White House was clearly opposed to restrict FDI inflows, but the media's widespread and alarmist coverage of the relative increases in inward FDI enticed politicians in Congress to loudly voice their opposition towards foreign ownership. In his intriguing analysis of these events, Eliot Kang underlines the importance of public opinion in these regards, arguing that "clearly, what jolted policymakers to take stock of the situation was the adverse public reaction to (…) foreign purchases of domestic assets"[6] thereby making a restrictionist policy stance towards inward FDI a highly attractive option for politicians that promised "media attention and votes from a broad electoral base with relatively low-cost and symbolic

[5] Ibid., 256.
[6] Kang, "Us Politics and Greater Regulation of Inward Foreign Direct Investment."

policy measures"[7]. Ultimately, he comments, "the White House could not suppress the policy activism triggered by public anxiety"[8].

Conclusions

Having illustrated the extraordinary transformation of the economic meaning attributed to inward FDI flows in predominant economic discourses in Part II and its relative reflection in the evolution of public attitudes towards inward FDI in the preceding chapter, the analysis presented in this chapter has zeroed in on the electoral-political aspects of these developments. As such, it has aimed at illustrating and further elaborating the important function that economic narratives play in democratic political settings. As I argued in Chapter 1, the wider public plays a crucial role in the social construction of economic narratives as co-creators as well as part of the audience that they are targeted at. Unlike more scientific types of economic knowledge, economic narratives are not only aimed at elites and policy specialists, but they also make an important contribution to the definition of the principles guiding *public* economic debates. As I attempted to argue in this chapter, their appeal for elites and the wider public alike are a key aspect of economic narratives' political relevance in democratic political environments because they simultaneously affect which policy options epistemic communities of policy specialists deem as being appropriate as well as the attention and support that the latter receive among the wider public. In particular, I have emphasized the role of

[7] Ibid., 324.
[8] Ibid., 314.

economic narratives as determinants of the *salience* of specific economic questions in public debates. As observed in previous chapters, the statist narrative defined foreign ownership as a critical issue for economic development, making it a highly salient issue in media and political debates. As a result, voters' scepticism towards foreign companies had some influence as either encouraging or constraining forces for the adoption of certain policies and, as the statistical analysis suggested, governments' ignorance of voter preferences could bear real (even if relatively small) costs in terms of voter support. In contrast, the globalization narrative portrayed FDI inflows in an overwhelmingly positive light and, at the same time, emphasized the inevitability of ever further global economic integration. In this sense, the narrative's forceful and repeated emphasis of the lack of plausible alternatives to the acceptance of the economic imperatives of globalization processes appears like a critical element in the history of global FDI in recent years, which, by constructing foreign corporate ownership as a by and large 'uncontroversial' economic phenomenon, removed FDI inflows from the political spotlight. Thereby the globalization narrative did not only contribute to gradually ease public opinion's reservations about FDI inflows, as the previous chapter has demonstrated, but – just as importantly – undermined its salience as a political issue *per se*, making public opinion largely indifferent towards FDI inflows, thereby returning FDI policy-making firmly back into the hands of policy elites who, following the principles of the globalization narrative, eagerly facilitated the unprecedented surge in FDI inflows that unfolded throughout the 1990s and 2000s.

PART IV. COMPARATIVE CASE STUDY

Chapter 6 . SHIFTING FORTUNES: GLOBAL ECONOMIC NARRATIVES AND THE NATIONAL INWARD FOREIGN DIRECT INVESTMENT POLICIES OF BRITAIN AND FRANCE, 1960s-2000s

The previous parts of this thesis have shown that the predominant social representation of the economic meaning of inward FDI have transformed notably from the 1960s to the 1990s and the quantitative tests have shown that this evolution was a geographically widespread phenomenon, which could be observed across the developed world. However, as Chapters 2 and 3 have also suggested, the timing as well as the depth of the observed shift from the regulation to the attraction of inward FDI has varied across countries. Some countries, such as the USA and the United Kingdom (and to a lesser extent Germany), have imposed relatively few restrictions on inward FDI throughout the post-war era, including in the 1960s and 1970s when the dominant global economic discourse portrayed them as a threat to long-term industrial development. Others, such as France and Japan (and later Canada), adopted strict screening mechanisms and carefully monitored FDI inflows in the aftermath of the Second World War, but then moved – at different speeds - to relax these controls from the 1980s onwards.

To assess some of these cross-national differences within this process of global change, the present chapter performs a comparative case study analysis of the relevant developments in the United Kingdom and France. A comparison of these two country cases is promising because they find themselves in a structurally similar position within the global economy, but at the same time their relation to the evolving economic narratives under investigation is rather different: French elites strongly embraced and promoted the statist narrative in the 1960s and 1970s, but – although they swiftly implemented many of the associated policy programs – they were more reluctant to adopt the narratives of neoliberalism and globalization in the 1980s and 1990s. In contrast, British elites were somewhat hesitant in adopting the narrative and policies of economic statism in the post-war era, but enthusiastically embraced the narratives of neoliberalism and globalization subsequently. Due to my analytical interest in the rise of the globalization narrative, the UK serves as the *primary case* and France as the secondary or *shadow case*. That is, the investigation primarily aims to assess the impact of the evolution in economic narratives on national FDI policy in the UK and, to increase the analytical leverage of this examination, compares these insights to the concurrent developments in France. Within the broader research design of this thesis, the goals of this comparison are to empirically ground the ideational developments that have been theorized and described in rather abstract terms in previous chapters and to compare their trajectory within two distinct cultural-institutional national economic environments.

ÉTATISME EN VOGUE: FDI POLICIES IN THE ERA OF NATIONAL SOVEREIGNTY (1960-1970s)

As discussed in Chapter 1, the political legitimacy of nation-states was unquestioned in the immediate post-war era and extended far into the realm of economics. It was widely accepted – including in communities of professional economists - that the state held a responsibility for economic management and the joint principles of economic sovereignty and state interventionism were firmly established in post-war world culture. These principles resonated well with long-standing French views, deeply imbued into French institutions, that the state holds a coordinative responsibility for the economy. Accordingly, French policymakers embraced the statist narrative in their words as well as actions as the French government implemented a prototypical - and for long a time highly successful - program of state-led economic management. An integral part of this strategy consisted of the careful monitoring of inward foreign direct investments and the selective use of incentives and disincentives to manage FDI inflows. In contrast, the economic principles of post-war world culture constituted a rather odd fit for liberal British economic traditions and its embedded institutions of economic management. Having relied on the principle of market coordination for extended periods of time, the global turn towards state intervention put the UK's economic policymakers and politicians into an uncomfortable position. Albeit British politicians and policymakers did respond to the rise of the statist narrative and economic strategist from both political main parties assiduously drew up plans of statist intervention, their implementation was half-hearted and perceived to be largely ineffective. In the area of FDI policy, these tensions were reflected in a recurring pattern of urgent political calls to increase the regulation and monitoring of foreign companies in Britain, accompanied by an almost complete inaction on behalf of the responsible government agencies, who even failed to collect the most basic statistics on inward

FDI flows. The following two sections describe these broad patterns in some more detail.

Developments in France, 1960s-1970s: Big Brother's watching eye

During the Third Republic (1870-1940), France's economy was heavily reliant on agriculture and small producers and state officials considered it as their responsibility to maintain the stability of this system[1]. The experiences of the Second World War, however, delegitimized the old elites and brought a new generation of leaders into power. In a radical break with the past, this new elite pushed for fast economic growth through state-led industrialization[2]. The key elements of this strategy were the state control of key industries, the centralization of the credit system and economic planning. Although often associated with socialist economic ideas, French economic planning was implemented by conservative governments and built upon unusually strong connections between business elites and state officials[3], while the labour class was largely side-lined in the process[4]. Essentially, the economic plans identified the priorities for economic development and thereby coordinated the expectations of market actors[5]. While French industrial policy focused on the development of entire industrial sectors and fast economic growth in general in the 1950s and early 1960s, from the mid-1960s - partly due to General De

[1] Hall, *Governing the Economy : The Politics of State Intervention in Britain and France*, 139.
[2] Ibid.
[3] The system of *pantouflage*. See ibid.
[4] Communists and socialists were involved in the adoption of economic planning, but not its implementation. See ibid., 168.
[5] What Peter Hall described as a process of socialization. See ibid., 162.

Gaulle's ambition to be a 'great industrial power'[6] - its emphasis shifted gradually towards a more selective approach that targeted the building of large and internationally competitive individual firms, the so-called 'national champions'[7]. The French economy outperformed most of its Western European peers in the 1960s and the state-led 'big push' strategy was widely considered as an immense success. From the mid-1970s, however, the French economy started to slow down as the growth regime appeared to be running out of steam.

Given the clear ambitions of French state officials to promote technology and the building of strong national firms, policies towards inward foreign direct investments played an important role in the pursuit of their overall economic strategy. Until the late 1950s, although French policymakers and planners had been carefully monitoring capital inflows as part of its exchange controls system, they appeared on the whole relatively unconcerned about inward FDI[8]. After De Gaulle came to power in 1958, however, FDI policies gradually turned into an issue of high politics, especially during the brief "war against the multinationals"[9] in the years from 1963-66. On the one hand, this shift was driven by concerns that increases in inward FDI may further fuel the already high rates of inflation[10]. On the other hand, the rapidly increasing number of US firms in France offered an ideal target for De Gaulle's nationalistic and explicitly anti-American discourse, which resonated well with the

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[6] Ibid., 167; John Zysman, "The French State in the International Economy," *International Organization* 31, no. 4 (1977): 840.
[7] Hall, *Governing the Economy : The Politics of State Intervention in Britain and France*, 149.
[8] David Bailey, George Harte, and Roger Sugden, *Transnationals and Governments : Recent Policies in Japan, France, Germany, the United States, and Britain* (London: Routledge, 1994), 46.
[9] Zysman, "The French State in the International Economy," 869.
[10] in Bailey, Harte, and Sugden, *Transnationals and Governments : Recent Policies in Japan, France, Germany, the United States, and Britain*, 47.

French public. In January 1963, the French Finance Ministry summarized its policy as follows: "[A]ll potential investments are scrutinised carefully to ensure that they contribute substantially to French technology of business know-how, or promote aid to important but expensive lines of research … we just object to anything that looks like speculation, a simple takeover, or an investment which France can perfectly well handle itself"[11]. Accordingly, the government used the powers of the Exchange Controls Act to systematically block foreign investments, in particular from the US[12], thereby angering the EC. In response to sustained pressures from the EC, France adopted a new Law on Foreign Investments in 1966-67 that formally liberalized the rules by shifting from a principle of explicit prior authorisation to a principle of formal declaration (similar to those prevalent in other EC member states); in practice, this formally significant shift changed little, however, as government officials interpreted and used their remaining policy space so generously that it allowed them to essentially continue the same policy approach[13]. While policymakers were interested to attract the technological know-how of foreign multinationals, they were concerned that the latter would transform their subsidiaries into lower-value adding satellites. As a result, all FDI inflows remained carefully scrutinized and French authorities regularly imposed conditions on inward investments - such as commitments to R&D facilities and technology transfer - and rejected a good number of investment projects, some of which were large. After the resignation of De Gaulle in 1969, however, the new government under Georges

[11] Ibid., 48.
[12] Ibid., 50.
[13] The French Ambassador to the US summarized the changes in investment policies as: "it used to be 'no, but …' and was now 'yes, but …'". In: ibid., 57.

Pompidou adopted a somewhat more positive approach towards foreign multinationals and the number of outright rejections decreased throughout the 1970s. President Pompidou didn't hesitate to make it clear that French firms should not become "furnishers of hand labour to foreign brains" and that the French did "not wish to be the arms of their heads"[14]. And Finance Minister d'Estaing stated that "concentrated investments in a single sector of the French economy are not desirable" and that "French solutions" are generally preferable to foreign takeovers[15]. But French policies towards MNCs became increasingly sophisticated and began focusing on the use of sticks as well as carrots in order to "make the best use" of MNCs rather than to just block inward FDI[16]. In sum: throughout the 1960s and 1970s, FDI inflows to France increased sharply. The successions of French presidential administrations were alert of the potential negative consequences of foreign ownership. As a result, although gradually relaxing their FDI policy, they maintained a sophisticated monitoring system and were determined to use the available policy tools in order to make inward FDI an instrument to promote national development while avoiding the perceived risks of foreign domination of French industrial sectors.

[14] in Jack N. Behrman, *National Interests and the Multinational Enterprise: Tensions among the North Atlantic Countries* (Englewood Cliffs, N.J.: Prentice-Hall, 1970).
[15] In Bailey, Harte, and Sugden, *Transnationals and Governments : Recent Policies in Japan, France, Germany, the United States, and Britain*, 70.
[16] Zysman, "The French State in the International Economy," 869.

Developments in the UK, 1960s-1970s: I love you, I love you not

The British economy before the World Wars was structurally and institutionally very different from its French counterpart. Rather than an inward-looking economy centred on agriculture and small-scale producers, it was a strongly outward-oriented declining empire of medium-sized businesses. Unlike in France, the government was generally disengaged from industry intending to leave coordination to market mechanisms, and the cooperation between the state and businesses followed voluntaristic rather than hierarchical guidelines. Nonetheless, despite these differences, the Labour government of Clement Attlee elected in 1945 originally advocated a 'big push' strategy of state-led economic growth not dissimilar from the visions of the new leaders in France. Yet, the ambitious plans of nationalization and economic planning were quickly moderated and the Labour Party shifted to a Keynesian approach of 'demand management' instead[17]. When the Tories were elected back into office in 1951, they initially advocated a return to the liberal tradition in which the government is "a referee, and not a player" in economic affairs[18]. However, throughout the 1950s economic problems accumulated and the sustained under-performance of the British economy relative to its continental European peers became increasingly clear. Seeking for a response, the Conservative Party gradually moved towards more statist approaches of economic management, starting to advocate a more active industrial policy from the late 1950s[19]. For that

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[17] Alec Cairncross, *The British Economy since 1945 : Economic Policy and Performance, 1945-1995*, 2nd ed. ed. (Cambridge, MA: Blackwell Publishers, 1995).
[18] Stephen C. Young and A. V. Lowe, *Intervention in the Mixed Economy : The Evolution of British Industrial Policy, 1964-72* (London: Croom Helm, 1974), 12.
[19] Ibid., 122. For example, the Conservative Party's manifesto for the general elections of 1964 asserted that "[i]n contemporary politics the argument is not for or against planning. All human activity

purpose, the Conservative government created a forum for economic planning, the National Economic Development Corporation (NEDC), in 1962. In the run-up to the general elections of 1964, the Labour Party enthusiastically took up these initiatives. In a widely celebrated speech held at the 1963 Annual Conference of the Labour Party, future Prime Minister Harold Wilson suggested that the "white hot heat of scientific revolution" required an interventionist government. In its 1964 Manifesto, the Labour Party wrote: "None of these [economic] aims will be achieved by leaving the economy to look after itself. They will only be achieved by a deliberate and massive effort to modernize the economy; to change its structure and to develop with all possible speed the advanced technology and the new science-based industries with which our future lies."[20] And in effect, the first Wilson government, in office from October 1964 to June 1970, did undertake a series of efforts to adopt a more statist approach towards economic management in Britain after its election victory. Five days after assuming office, the Labour government announced the creation of a new Department of Economic Affairs (DEA) and a dedicated Ministry of Technology (Mintech) in order to 'foster long-term economic planning and industrial policy' and 'to stimulate a major national effort to bring advanced technology and new processes into British industry'[21]. Soon thereafter, the DEA released its first National Plan. As part of the plan, the Industrial Reorganization Corporation (IRC) was created as a third key institution for the coordination of the

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involves planning. The question is: how is the planning to be done?" See "1964 Conservative Party General Election Manifesto: Prosperity with a Purpose," http://www.conservativemanifesto.com/1964/1964-conservative-manifesto.shtml.

[20] In: Hodges, *Multinational Corporations and National Government : A Case Study of the United Kingdom's Experience, 1964-1970*, 62.

[21] Ibid., 65-69.

government's industrial policy. The mandate of the IRC was to increase the efficiency of British industry through the encouragement of industrial mergers. In stark contrast to the French experience, however, the Wilson governments' successes with industrial policy were meagre[22]. The Tory party that came back to power in 1970 had abandoned the enthusiasm for industrial policy it had found in the early 1960s[23]. They swiftly abolished the IRC, integrated Mintech into the newly created Department of Trade and Industry (DTI) and further undermined the industrial policy initiatives of the Wilson administration under a program of so-called 'disengagement'[24]. By the time he had been elected back into office in 1974, Harold Wilson's own conviction that Britain needed an industrial policy seemingly had fainted too. At the same time, the British economy continued to suffer from a lacklustre economic performance throughout the 1970s, which culminated in an IMF program in 1976, the 'winter of discontent' in the cold months of 1978/79 and ultimately the election of the radical Thatcher government in spring 1979. The UK government's half-hearted and inconsistent approach towards industrial policy in the 1960s and 1970s is also reflected in the inward FDI policies that it pursued during that period and which this chapter now turns to.

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[22] Hall, *Governing the Economy : The Politics of State Intervention in Britain and France*, 88.
[23] Young and Lowe, *Intervention in the Mixed Economy : The Evolution of British Industrial Policy, 1964-72*, 122.
[24] Ibid., 9.

British inward FDI policy

As the world's major outward investor in the 19th and early 20th century, Britain took a generally liberal stance towards inward FDI before and after the World Wars. This was partly due to concerns that restrictions on inward FDI could lead to retaliations against British investors abroad, but also driven by a more general trust in free markets that was traditionally widespread among UK policy elites. According to Geoffrey Jones, inward FDI was simply not considered as a matter requiring an explicit government policy before 1945[25]. After the end of the Second World War, American investments in the United Kingdom did turn into a political issue and the adoption of the Exchange Controls Act in 1947 in principle provided the Treasury and Bank of England with extensive powers to regulate foreign direct investments. However, the latter were reluctant to use these powers in the years to come. The attention of the officials of the Treasury and Bank of England, and arguably of British economic policy more broadly conceived[26], was firmly focused on the balance of payments rather than industrial development and on these grounds policymakers saw little reason to restrict inward FDI[27]. The Treasury, which under the provisions

[25] Geoffrey Jones, "The British Government and Foreign Multinationals before 1970," in *Governments, Industries and Markets*, ed. Martin Chick (Aldershot: Edward Elgar, 1990), 196.
[26] See Stephen Blank, "Britain: The Politics of Foreign Economic Policy, the Domestic Economy, and the Problem of Pluralistic Stagnation," *International Organization* 31, no. 4 (1977); Hall, *Governing the Economy : The Politics of State Intervention in Britain and France*.
[27] In defense of inward FDI, Gwyneth Dunwoody, Parliamentary Secretary to the Board of Trade, summarized these views as follows: "This [employment] is not the only advantage which foreign investment brings us, for it brings foreign currency. By producing goods previously imported it also helps to reduce our import bill and to introduce new techniques of industrial management. American firms have an excellent record as exporters. In 1965, for example, American subsidiaries accounted for about 7 per cent, of the total net assets of all United Kingdom companies and for 13 or 14 per cent, of our total exports. If we could add to that export achievement the imports which have been saved as a result of the new production set up here—not to mention the immediate benefit to the reserves of the initial inflow of funds—I think we would find that American investment has made a very substantial

of the Exchange Control Act had to formally approve each in- and outflow of capital did strictly control outward FDI due to concerns that they contributed to weakening Britain's balance of payments, but generally welcomed inward FDI as long as the subsidiaries were financed from abroad, declared not to borrow on local capital markets and to minimize the import of intermediate products. Reportedly, the Treasury also had some criteria with regards to inward FDI to ensure the 'national economic interest' and to protect Britain's 'strategic industries'[28]; but these criteria were never clearly defined and formal rejections of investment applications by the Treasury were very rare[29]. Lord Bridges, Permanent Secretary of the Treasury in the 1950s, stated that "[investment from overseas] is generally welcomed because it helps our balance of payments and tends to make funds available for our traditional role of overseas investment, particularly in the Commonwealth"[30]. In international perspective, Britain's FDI policy was among the most liberal in the world. Unlike most other countries, the UK never adopted a specific law on foreign direct investments; its takeover regulations explicitly aimed not to discriminate between foreign and domestic investors; and, maybe most remarkably, although consistently experiencing some of the highest levels of inward FDI (see Figure 2.1 in Chapter 2),

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contribution to our balance of payments." UK Hansard, "Debates in the House of Commons." (29 January 1968), vol. 757 cc1051-60.

[28] Hodges, *Multinational Corporations and National Government : A Case Study of the United Kingdom's Experience, 1964-1970*.

[29] Hodges (ibid., 79.) counted only five rejections in the three decades from 1945-1974. However, it is possible that formal rejection rates notably underestimate the real deterrents because investment applications to the Treasury were channelled through British merchant banks, which pre-screened investment applications before submitting them to the Treasury. See Jones, "The British Government and Foreign Multinationals before 1970."

[30] In Hodges, *Multinational Corporations and National Government : A Case Study of the United Kingdom's Experience, 1964-1970*, 80.

the UK government did not undertake any serious efforts to collect systematic statistics on the activities of foreign multinational companies until the late 1970s[31].

In the run-up to the 1964 General Elections the Labour party explicitly criticized this liberal handling of inward FDI and takeovers. As the Leader of the Opposition, Harold Wilson stated in a parliamentary speech that "[we must] distinguish between those forms of foreign investment which are and have always been welcomed, which introduce 'know-how' which we do not possess, or which lead to the creation of new industries or new factories and employment for our people on the one hand, and, on the other, those which involve a partial or complete take-over of existing British firms which are already very well run…"[32]. After entering office, however, the Labour party initially seemed to have lost its interest in inward FDI[33]. But three large take-overs in 1966[34] started to re-generate some political debate and Wilson raised some controversies with his highly sceptical remarks about US investments in Europe in his Guildhall speech of 1967 in which he proposed a European Technological Community and described the dangers of US investments as follows:

> "There is no future for Europe, or for Britain, if we allow American Business … so to dominate the strategic growth industries of our individual countries, that they, and not we, are able to determine the pace and direction of Europe's industrial advance, that we are left in industrial terms as the hewers of wood and drawers of water while they, because of the scale of research, development and production which they deploy, based on the vast size of their single market, come to enjoy a growing monopoly in the

[31] See Bailey, Harte, and Sugden, *Transnationals and Governments : Recent Policies in Japan, France, Germany, the United States, and Britain*.
[32] In Hodges, *Multinational Corporations and National Government : A Case Study of the United Kingdom's Experience, 1964-1970*, 175.
[33] Ibid., 122.
[34] Chrysler-Rootes, Philips-Pye Telecommunication, and Litton-Imperial Typewriters.

> production of technological instruments of industrial advance … This is the road not to partnership but to an industrial helotry, which, as night follows day, will mean a declining influence in world affairs, for all of us in Europe."[35]

In a debate on American investments held in the House of Commons in January 1968, several MPs expressed similar concerns. One Labour MP formulated the problem as follows:

> "The proud descendants of the Pilgrim Fathers and their friends have been returning in a massive procession to our shores over the years, while some of my honourable Friends have been gazing across the Channel looking for links with Europe, and during this time some of our cousins in the New World have been coming in by the back door into this country. They are visitors we welcome, of course, but at times we wish they would not always wear their boots when occupying our industrial and commercial beds. (…) [U]nless the major modern industries of Europe not yet taken over can be kept under European control, Europe will lose its inventive brains and higher technical skills to the New World, and will become little more than a provincial production line for American industry, and a playground for tourists."[36]

Yet, unlike in France, such vivid concerns did not result in a tighter regulation of inward FDI. Instead of restricting FDI inflows, the Labour government opted to actively support British industry in order to enable them to meet the 'American Challenge', primarily through the encouragement of British mergers via the IRC.

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[35] In Hodges, *Multinational Corporations and National Government : A Case Study of the United Kingdom's Experience, 1964-1970*, 228. Several historians have interpreted Wilsons' Guildhall speech primarily as an (unsuccessful) attempt to flatter General De Gaulle, who strongly opposed Britain's admission to the European Single Market, rather than the expression of real concerns about American domination of European industry. On the other hand, however, Wilson repeated similar remarks at several other occasions, including speeches with an exclusively domestic audience. See Graham, "Developed Countries and Multinational Corporations: Threat Perception and Policy Response in France and the United Kingdom."

[36] UK Hansard, "Debates in the House of Commons." (29 January 1968) vol. 757 cc1051-60.

This strategy focused in particular on the automobiles and computer industries where British policymakers actively attempted to avoid foreign ownership of significant market shares and followed French efforts to build national champions. The next two paragraphs briefly summarize these efforts.

Government activity in the automobile industry

The UK's car manufacturing industry, centred around the 'Big Five'[37], entered into crisis in the 1950s when British manufacturers were increasingly challenged by their German and French competitors. In 1960 Ford USA made a takeover bid for Ford UK, which provoked opposition from the Labour party. Harold Wilson, at the time leader of the Opposition opposed the deal: "I want to make it clear that we on this side of the House are not against American investment in this country … But we are against a major industry being owned by the Americans"[38]. Ultimately, the Treasury approved of the takeover under the conditions that a minimum number of British nationals are to sit on its board of directors and commitments by the new owners to increase their export targets in order to support the UK's balance of payments. Six years later, when Labour was in office, Chrysler made a bid for Rootes. The government raised concerns, but finally approved reluctantly, imposing similar conditions to assure the company's 'Britishness'. Wedgwood Benn, Minister of Technology at the time, explained that "[t]he government consulted the leaders of

[37] The 'Big Five' were Ford UK [subsequently taken over by Ford USA], Rootes [Chrysler], Vauxhall [GM], BMC and Leyland [later merged into BLMC, see below]

[38] In Hodges, *Multinational Corporations and National Government : A Case Study of the United Kingdom's Experience, 1964-1970*, 189.

the principal British-owned motor vehicle firms to see whether a viable solution designed to enable Rootes to continue as a British-controlled company could be devised. No such scheme proved practicable … The take-over of Rootes by the British Government, which, of course, was considered (…) was not a practicable proposition"[39]. Nonetheless, alarmed by the disappearance of two of the UK's formerly 'Big Five' within six years, the government promptly initiated plans to merge BMC and Leyland in order to build at least one wholly British-owned company that can compete with the American manufacturers on its home turf. Two years later the merger was completed.[40]

Government activity in the computer industry

The Labour government pursued a similar approach in the computer industry, which it considered to be the industry of the future. At the time, IBM was holding a dominant position in world markets and held a large and increasing share of the UK market. The Labour government was determined to "preserve a British-controlled sector of computer industry"[41]. Frank Cousins, Minister of Technology in 1965 stated that "a flourishing British computer industry is vital to the economic well-being of this country"[42]. And Sir Maurice Dean, Permanent Secretary of Mintech, declared that "there are certain points in the economy which must be held … The government

[39] In ibid., 204-05.
[40] The resulting BLMC (containing brands such as Jaguar, Rover, LandRover and Mini) was partly nationalized in 1975, renamed into Rover Group in 1986, and then gradually disintegrated into its constituent parts, which had all been taken over by foreign car manufacturers by the mid-2000s.
[41] Hodges, *Multinational Corporations and National Government : A Case Study of the United Kingdom's Experience, 1964-1970*, 245.
[42] In ibid., 220.

has decided that the computer industry is one such point"[43]. An analysis of the problems of the British computer industry led by the Ministry of Technology concluded that British computer firms were too small and didn't have sufficient access to capital to be internationally competitive. Therefore, it actively encouraged the consolidation of the British-owned computer industry through the merger of the three major British producers[44] into the newly created International Computers Limited (ICL), which was created in 1968 and provided with generous R&D grants. At the same time, the Labour government introduced a 'Buy British' computer procurement policy that applied to national as well as local governments, universities and also extended to parts of the private sector. The ILC successfully regained market share and operated as a profitable company before running into troubles in the early 1980s[45].

However, the defeat of the Labour Party in the General Elections of 1970 put an end to these efforts. Having abandoned its own plans to devise an industrial policy for Britain, the Conservative government of Edward Heath pursued a program of 'disengagement'. They discontinued Labour's merger program in the early 1970s and abolished the IRC and the Ministry of Technology, which was integrated into the newly created Department of Trade and Industry (DTI). And although the Labour Party returned to office in 1974, the macroeconomic difficulties of the British

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[43] In ibid., 245.

[44] Namely, these were International Computers and Tabulators (ICT),English Electric Leo Marconi(EELM) and Elliott Automation

[45] Having developed a range of internationally successful products, the company entered into crisis in the early 1980s and was gradually taken over by *Fujitsu*, which took full ownership in 1998.

economy left little room for further experimentations in industrial policy. Instead, the economic malaise of the mid-1970s encouraged British policymakers to adopt an increasingly positive stance towards inward FDI. Growing unemployment was a pressing political issue and, at the same time, 'under-investment' was seen as one of the principal reasons for Britain's low productivity and resulting economic struggles[46]. FDI inflows were considered as a potential remedy for both of these problems[47] and, as a result, the Labour government of James Callaghan finally decided to start actively promoting inward FDI and in 1977 created the Investment Britain Bureau (IBB) for that purpose. The IBB was one of the first national-level IPAs in the developed world and was to undertake modest promotional efforts to attract US and Japanese investors[48], with a particular focus on increasing FDI inflows in "steel closure areas and other areas of high unemployment"[49].

[46] For example, John Watkinson, MP for the Labour Party, specified in a parliamentary debate held in the House of Commons on 18 February 1975 that "[t] he fuelling power for economic growth is investment and our performance has been particularly disappointing over the past five years. I see that the figures from the DTI, and, indeed, those from the CBI, indicate a pessimistic trend in investment. We are now in the position of consistently under-investing by 10 per cent in relation to our European neighbours." Harvie Anderson, MP for the Conservative Party, concurred: "We need more investment. No one doubts that (…) British industry has had drawn away from it all possible sources of investment, with the result that it is now at a point where only survival can be thought of." See UK Hansard, "Debates in the House of Commons." (18 February 1975) vol 886 cc1125-258.
[47] See Stephan Dreyhaupt, *Locational Tournaments in the Context of the Eu Competitive Environment: A New Institutional Economics Approach to Foreign Direct Investment Policy Competition between Governments in Europe* (Wiesbaden: Deutscher Universitaets-Verlag, 2006), 124.
[48] It has to be noted, however, that the scope of the agency was initially not very ambitious. Although it did undertake some advertising efforts (such as the 'Britain Means Buisness'-campaign of the mid-1980s), its main function was to operate as some sort of a 'clearing house' that forwarded investor inquiries to the regional IPAs, which were particularly active in Scotland, Wales and Northern Ireland. Only in the early 1990s it was scaled up and transformed into an institution that proactively targeted prospective investors and provided aftercare services. See Dreyhaupt 2006:124.
[49] Nicholas Edward, Conservative Party member and Secretary of State for Wales, in UK Hansard, "Debates in the House of Commons." (22 November 1979) vol 974 cc308-9W

Elite surveys on attitudes towards foreign MNCs in Britain and France

Overall, the UK government elites' stance towards inward FDI was thus seemingly relatively more favourable than those of their French counterparts. Although British governments clearly did adopt the statist narrative in the late 1950s and 1960s, their enthusiasm for industrial policy and economic planning was less pronounced and relatively short-lived. Even though British policymakers undertook efforts to build strong British-owned industries, they were seemingly less inclined than their peers on the other side of the Channel to consider inward FDI as a 'threat' undermining such plans.

Elite surveys conducted by John Fayerweather[50] and Norman Graham[51] in the early 1970s reflect these patterns. Fayerweather and Graham reportedly used identical questionnaires in order to systematically examine the perceptions of foreign multinationals among politicians, civil servants, labour and business leaders in the UK, France and Canada in 1970 and 1975. Table 6.1 summarizes their findings for their respondents' view of the 'overall effect' of foreign MNCs. Out of all groups surveyed, UK civil servants expressed the most positive assessment of the role of inward FDI - the view that inward FDI are 'rather good' reached a near-consensus in the 1975 UK survey (shortly before the creation of the IBB, see above) -, while labour union leaders were markedly more divided on the issue. Among British MPs, on average two out of three representatives considered the presence of foreign MNCs as 'a rather good' thing. The views of labour and business leaders in France were

[50] Fayerweather, "Elite Attitudes toward Multinational Firms; "Elite Attitudes toward Multinational Firms: A Study of Britain, Canada, and France," *International Studies Quarterly* 16, no. 4 (1972).
[51] Graham, "Developed Countries and Multinational Corporations: Threat Perception and Policy Response in France and the United Kingdom."

similar to those observed in the UK. In stark contrast, French civil servants and MPs expressed clearly more sceptical views of inward FDI than their UK counterparts. The findings also suggest a very dramatic deterioration in predominant views expressed by French MPs and civil servants from 1970 to 1975. The degree of this change over such a short period is somewhat puzzling and the authors do not explicitly address questions to what extent this measured drop in support for FDI in France may be influenced by methodological choices. Nonetheless, in broad terms the patterns are consistent with the qualitative investigation so far presented in this chapter.

Table 6.1. British and French Elite Perceptions of the Overall Effect of MNCs (percentages)

Question: In your opinion, what is the overall effect on Britain [France] of the activities of foreign-owned multinational companies in Britain [France]?

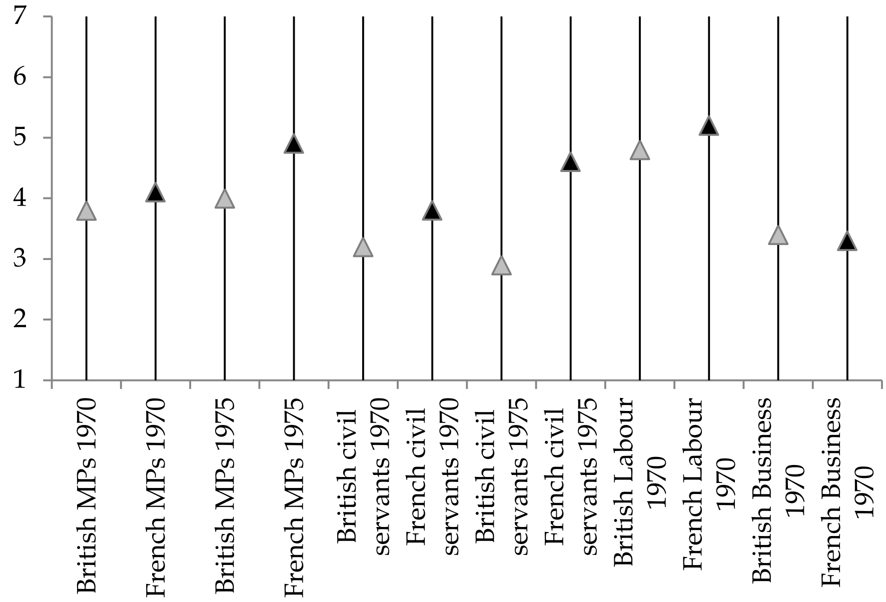
		Rather good	Neutral	Rather bad
Britain	MPs 1975	62.4	4.7	31.2
	MPs 1970	59	20	22
	Civil servants 1975	94.5	5.6	0
	Civil servants 1970	81	7	12
	Labour Leaders 1970	41	22	37
	Business Heads 1970	69	12	18
France	MPs 1975	26.2	24.6	49.2
	French MPs 1970	68	9	22
	Civil servants 1975	29.6	29.5	41
	Civil servants 1970	66	18	26
	Labour Leaders 1970	43	13	44
	Business Heads 1970	71	17	12

SOURCE: Adapated from Fayerweather (1982) and Graham (1982). Data from 1970 survey is from Fayerweather (1982); Data from 1975 survey is from Graham (1982). The authors used identical questions.

Figure 6.2 summarizes the results from a similar question from the same surveys which asked respondents to assess, on a continuous scale ranging from 1 to 7, whether foreign MNCs 'give more than they take' or 'take more than they give'.

Figure 6.2. British and French Elite Perceptions of Net Economic Result of MNCs (average scores)

Question: What do you believe is the net economic result of the operations of foreign-owned multinational companies in Britain [France]? They give more than they take = 1; They take more than they give = 7 (Neutral = 4). The chart shows average scores by groups of respondents.



SOURCE: Adapated from Fayerweather (1982) and Graham (1982). Data from 1970 survey is from Fayerweather (1982); Data from 1975 survey is from Graham (1982). The authors reportedly used identical questionnaires.

Most responses range around the median value of 4, suggesting that dominant elite views in the 1970s may be best summarized as somewhat 'ambiguous'. Furthermore, consistent with previous results, business leaders from both countries and British civil servants appeared to be most sanguine about FDI, while Labour leaders and French civil servants and MPs expressed the most sceptical views. Furthermore, in accordance with the observations made in previous sections of this chapter, for nearly all groups in both surveys UK respondents expressed on average a more positive view of inward FDI than their French counterparts.

Finally, the findings from elite interviews with UK policymakers conducted by Michael Hodges in 1971[52] nicely complement these results. Investigating the *reasons* why elite groups have a positive or negative view of inward FDI, Hodges reports that in a series of interviews with 28 UK civil servants, the most frequent answers to the open-ended question 'What are the main benefits of FDI inflows?' were (in order of frequency): 1. Access to technology, 2. Benefits to the balance of payments, 3. Employment, increased efficiency and productivity, management skills. The most salient perceived disadvantages of FDI were: 1. Companies could take decisions inimical to UK interests, 2. Domination by US MNCs of important British industries, 3. Technological dependence, and 4. Monopolistic behavior of MNCs. Similarly, another survey conducted by Hodges with a random sample of 120 UK senior civil servants and 355 businessmen conducted in 1969[53] found that 79% of the respondents agreed that US MNCs brought technological know-how to Britain, 77% agreed that the capital which FDI brings is 'a very good thing for the British economy' and 67% agreed that it brings much-needed competition to inefficient domestic firms. However, on the downside, 43% of the respondents agreed that 'the independence of business throughout Europe (…) is being threatened by American

[52] See Hodges, *Multinational Corporations and National Government : A Case Study of the United Kingdom's Experience, 1964-1970*, Chapter 4.
[53] See ibid., 147ff.

take-overs' (with only 25% disagreeing with the statement, 18% indicating to be neutral and 11% not giving an answer), and only 6% felt that 'the Government should encourage (…) American take-overs of British firms' (24% indicating that it should be discouraged and 61% stating 'neither encouraged nor discouraged').

Although the insights gained from the comparison of historical surveys conducted in different countries at different points in time faces some obvious limitations, these results are nonetheless useful indicators of several trends observed in the qualitative investigation: overall, elites' assessment of the role of inward FDI in the 1970s was fairly ambiguous, but generally more positive in the UK than in France.

THE WORLD IS FLAT (AGAIN): FDI POLICIES IN THE ERA OF 'GLOBALIZATION' (1980s-2000s)

As described in Parts I and II, the economic difficulties of advanced economies in the 1970s led to a gradual rethinking of the principles of economic management towards a more liberal stance that supports the use of market mechanisms in place of state coordination. The dramatic political and technological developments of the late 1980s and early 1990s then ingrained this approach with a strong internationalist view of the working of the world economy, which resulted in a very prominent transnational narrative of globalization that altered the *réferentiel* of economic policy thinking, providing new scripts for the analysis of economic, and in particular industrial policy. The UK was one of the first and most enthusiastic supporters of these emerging narratives. In a break with the statist narrative, the Thatcher government turned to consider international competition as largely beneficial and something that British firms have to be exposed to rather than protected from. However, at the same time, the Thatcher administration still upheld beliefs that the nationality of ownership matters and that it is important to have British-owned industries in key sectors. From the late 1980s onwards, such considerations became gradually less important and the British governments in the 1990s and 2000s strongly encouraged inward FDI, aggressively promoted Britain as a place for foreign investments and granted generous tax reliefs and financial incentives to MNCs. Concurrently, inward FDI flows turned into a matter of 'national pride'. Politicians from both main parties started to boast about the comparatively high levels of FDI inflows, interpreting them as a sign of the UK's economic success and the confidence of global markets in the UK economy. In stark contrast, the reception of the globalization narrative was more reluctant in France, where a profound scepticism towards market coordination is more deeply ingrained in the material and discursive institutional structure. Although the French economy was liberalized dramatically from 1983 onwards, the political elite upheld a globalization-sceptical economic discourse. This divergence led to an increasing disconnect between French policy elites' words and actions, as the French FDI policy pursued during that period illustrates. Although France removed almost all restrictions on inward FDI, significantly liberalized its national take-over regime and also created a complex structure of government agencies dedicated to the attraction of FDI, politicians continued to publicly denounce the evils of globalization and foreign ownership, leading to some high-profile interventions to protect a handful of French firms from foreign takeovers in an otherwise largely liberal and open economic environment.

Developments in the UK, 1980s-2000s: Globalization to the rescue

In the late 1960s and early 1970s, important sections of the Conservative Party started to abandon their support for corporatism and interventionist industrial policy that had emerged only a decade earlier. The evident failure of demand stimuli in the aftermath of the crisis of 1973 delegitimized the principles of Keynesian demand management and further emboldened the voices within the Conservative Party that called for a return to a more clearly market-based approach to economic policy. Finally, the strikes during the long 'winter of discontent' of 1978/79 led to a more widespread popular dissatisfaction with the idea of corporatism, paving the way for Margaret Thatcher's victory in the general election of May 1979. As is well known, Thatcher was a staunch advocate of free markets and a monetarist economic policy that focuses on the control of inflation rates and public spending. Not surprisingly, Thatcher was sceptical of industrial policy. She opined that significant "[p]ublic funds could be saved and industry rendered more competitive if the nationalized industries were forced to make a profit or reprivatized, and grants to 'lame ducks' in the private sector were abolished"[54]. And with Sir Keith Joseph she duly appointed an ardent advocate of governmental laissez-faire as the Secretary of State for Industry, instructing him to embark on an ambitious program of 'reprivatization'. The Thatcher administration was firmly committed to re-impose

[54] In Hall, *Governing the Economy : The Politics of State Intervention in Britain and France*, 110.

the laws of the market on the British economy. Privately, the Conservative leadership around the 'Iron Lady' welcomed the high exchange rate valuation and the temporary recession in the UK economy in the hope that they "would force all firms to become more competitive and weed out the weak from the strong"[55]. In the same vein, they considered international competition as 'a good thing' that ought to be welcomed in the domestic market in order to force British firms to be more competitive. According to Peter Middleton, Permanent Secretary of the Treasury from 1983-1991, the Thatcher government's goals were simple: "to liberalise the economy (…) and really thrust the UK into the wider world where ministers wanted it to be"[56]. To that end, they abolished the Exchange Controls Act in an early key decision in the summer of 1979, thereby establishing the principle of free flows of capital into and out of the United Kingdom. In the same vein, the reprivatisation program was to be fully open to foreign participation[57] and the Thatcher government undertook some efforts to attract foreign firms, primarily through the provision of generous tax breaks[58]. Yet, despite its embrace of international competition, the Thatcher administration's internationalism was more restrained than the version to be pursued by her successors. Thatcher upheld Labour's industrial policy in high-technology sectors[59] and her government still attached great value to the 'nationality' of firm ownership. Although Thatcher explicitly

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[55] In ibid., 131.
[56] In Michael David Kandiah, "Witness Seminar Ii: The October 1987 Stock Market Crash," *Contemporary British History* 13, no. 1 (1999): 108.
[57] The 'golden share provision' limiting the holdings of any one investor to 15 percent applied equally to foreign and domestic investors. See Safarian, *Multinational Enterprise and Public Policy : A Study of the Industrial Countries*, 35.
[58] Colin Wren, "The Industrial Policy of Competitiveness: A Review of Recent Developments in the Uk," *Regional Studies* 35, no. 9 (2001): 120.
[59] Hall, *Governing the Economy : The Politics of State Intervention in Britain and France*, 113.

encouraged fostering international competition in the domestic market, the ultimate goal of this policy remained to strengthen 'British' firms. The evolution of the government's thinking about foreign ownership under Thatcher and beyond is best illustrated with the example of the 'Big Bang', the liberalization of the City of London in 1986.

Tough Love and a Big Bang: The deregulation of the City of London

UK market access for foreign banks had traditionally been severely restricted. Although by 1977 300 foreign banks had been authorized to deal foreign exchange in the UK, none of them was a clearing bank and only very few had established domestic branches[60]. In 1981, when the Hong Kong and Shanghai Banking Corporation attempted to secure control of the Royal Bank of Scotland, the Bank of England was strongly opposed. It reasoned that RBS should remain 'British' and the deal was ultimately vetoed by the Monopolies and Mergers Commission[61]. Yet, only fifteen years later, nearly all British banks had been taken over by foreign owners and almost no one was complaining. What had happened?

The process of the liberalization of the City of London starts in 1974 when, for reasons that are unclear until today[62], the London Stock Exchange curiously missed the deadline to apply for exemptions from the new regulations on restrictive practices established through the new Fair Trading Act. Because the systematic

[60] Safarian, *Multinational Enterprise and Public Policy : A Study of the Industrial Countries.*
[61] Ibid., 353.
[62] In the ex post judgment of the responsible officer, the Stock Exchange would probably have been granted with significant exemptions, if it had applied. See Kandiah, "Witness Seminar Ii: The October 1987 Stock Market Crash."

protectionist policies of the system of 'gentlemanly capitalism'[63] were well known and no exemptions had been applied for, it emerged in the late 1970s that the Office of Fair Trading had started investigating the Stock Exchange. After the victory of Margaret Thatcher in 1979, the City's traders were relieved, expecting that she would shelter them from the restrictive practices accusations[64]. Yet, the bankers had misplaced their bets. Somewhat surprisingly, the 'Iron Lady' decided not to protect one of her most powerful constituents that had just helped her win the general elections. Instead, her government fully supported the cause of the investigation. Nigel Lawson, Chancellor of the Exchequer at the time, stated that "unless the City was exposed to the invigorating effects of competition, London would become a backwater in the global, highly competitive securities market"[65]. Since exchange controls had already been removed, the Conservative government strongly believed that foreign competitors should be allowed to enter the City in order to stifle competition, as well as to increase the world market share of London's international financial sector[66]. Ultimately, the government forced the Stock Exchange to open up in 1983 through an agreement in which it declared to drop the restrictive practices investigation if the Stock Exchange committed to abolish the monopolistic system of fixed commissions and to remove the barriers to foreign entry. To allow the British financial institutes to prepare for this major shock, the so-called Goodison-Parkinson agreement was to enter into force three years later on 27 October 1986, the day of the 'Big Bang'. There is plenty of evidence to suggest that the government firmly

[63] Philip Augar, *The End of Gentlemanly Capitalism: The Rise and Fall of London's Investment Banks* (New York; London: Penguin, 2000).
[64] Ibid., 43.
[65] In ibid., 47.
[66] Ibid., 46.

believed that the agreement would strengthen, not eliminate, the British-owned investment banking industry. In December 1983, a minister responsible for the agreement stated that "[i]f we want to maintain London as a prominent market, I think it is very important that the Stock Exchange and the majority of the institutions here should remain very firmly in British hands"[67] and the *Financial Times* observed that "[t]he authorities are anxious to see the emergence of strong British securities firms, capable of competing with the big Wall Street and Japanese houses"[68]. As late as in 1987, a provision was included in the new Banking Bill to allow the Bank of England to veto foreign takeovers and the Bank pledged to use these powers to ensure "a strong and continuing British presence in the banking system"[69], while at the same time actively encouraging the formation of conglomerates of British banks that closely combine commercial and investment banking[70]. Peter Middleton explained that the Treasury was interested in "getting some large, well-capitalised British organisation into this. (…) We thought this was a business in which the UK had some real expertise and if the market was going to be here, in order to keep it here we really did need some British players here as well"[71]. Yet, as the bankers had misplaced their bets on the Thatcher government, so did the government misjudge the consequences of the removal of the barriers to entry. On the one hand, they underestimated the first-mover advantage of Wall Street banks, which since May Day 1975 had had plenty of time to become familiar with the workings of a

[67] Ibid., 5.
[68] In ibid.
[69] Safarian, *Multinational Enterprise and Public Policy : A Study of the Industrial Countries*, 354.
[70] John Plender, "London's Big Bang in International Context," *International Affairs (Royal Institute of International Affairs 1944-)* 63, no. 1 (1986): 45.
[71] Kandiah, "Witness Seminar Ii: The October 1987 Stock Market Crash," 121-22.

deregulated financial system. On the other hand, they didn't fully account for the immense opportunities to 'cash in' that the Big Bang would create for the partners of UK banks – which were selling "at huge multiples (…) due to excess competition"[72] - as well as the latter's willingness to 'sell and retire'[73]. In the shatters of Black Monday, Big Bang initially seemed to have little impact on the UK investment banking industry. Yet, after Wall Street had refilled its war chests during the subsequent bull market, all major UK investment banks had gone in a matter of years.

Unlike the preceding Labour government, the Thatcher administration thus embraced international competition. Yet, at the same time, the Conservative Party under Thatcher still voiced some concerns about the nationality of ownership. In the judgment of some experts, Thatcher considered FDI "[n]either as important to secure [n]or important to repel"[74]. Her liberal stance towards inward FDI and takeovers primarily derived from her general commitment to the principle of free flow of capital rather than a positive assessment of inward FDI in particular.

Yet, towards the end of the Thatcher era, the UK government's view of inward FDI moved gradually from a neutral to a more positive position, as concerns about the nationality of ownership were increasingly seen as irrelevant. While Sir David Walker, Governor of the Bank of England from 1982-1993, explicitly "wanted to see

[72] Ibid., 127.
[73] Augar, *The End of Gentlemanly Capitalism: The Rise and Fall of London's Investment Banks*, 51. Augar reports estimates that the Big Bang created 750 millionaires. Ibid., 81.
[74] Forrest Capie, Wood Geoffrey, and Frank Sensenbrenner, "Foreign Direct Investment in the Uk: Flows, Attitudes, and Implications," *Journal of Interdisciplinary Economics* 16, no. 1 (2005): 24.

some major British players emerge in the new market"[75], his successor Sir Edward George, arguing that companies had lost their national identities due to the globalization of clients and shareholders, didn't think that ownership still mattered[76]. Pressed upon the issue of waning British ownership in the City of London, he reportedly urged his audience not to worry by recalling the Wimbledon Tennis Championships: "held in Britain, staffed by locals, dominated by foreigners but still generating bags of prestige and money for the UK. The City [will] be the same: safe as Europe's financial capital and a strong environment in which Britain's investment bankers could work"[77]. What matters, in his view, are not nationality of ownership or control, but simply the presence of economic activity[78].

The Rise of the Competitiveness Agenda

After John Major, who had emerged as the new Prime Minister from a leadership contest that had ousted Thatcher in 1990, was re-elected in 1992, he appointed Thatcher nemesis Michael Heseltine[79] as secretary of state for trade and industry, indicating a broader shift in policy. Heseltine's views explicitly differed from the Conservative Party's commitment to non-intervention. At a Conference of the Conservative Party in 1992 he jokingly announced: "If I have to intervene to help

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[75] Kandiah, "Witness Seminar Ii: The October 1987 Stock Market Crash," 121.
[76] Augar, *The End of Gentlemanly Capitalism: The Rise and Fall of London's Investment Banks*, 322.
[77] In ibid., 3.
[78] Capie, Geoffrey, and Sensenbrenner, "Foreign Direct Investment in the Uk: Flows, Attitudes, and Implications," 21.
[79] Heseltine had been Minister of Defence under Margaret Thatcher from 1983 to 1986 when they clashed in a personal conflict, the so-called 'Westland Helicopter Affair'. While Thatcher preferred selling the struggling British defence company to a US company, Heseltine preferred a 'European solution'. Refusing to accept Thatcher's position, Heseltine resigned in protest in 1986.

British companies (…), then I tell you I'll intervene before breakfast, before lunch, before tea and before dinner. And I'll get up the next morning and I'll start all over again."[80] The type of intervention he had in mind, however, differed markedly from traditional industrial policy. Heseltine argued for an active state; but the state's economic intervention should not focus on 'picking winners' but on the provision of an attractive business environment[81]. Under his leadership, the Department of Trade and Industry released a series of reports on UK competitiveness, outlining a horizontal industrial policy approach to 'get the environment for business right'. The competitiveness agenda strongly emphasized the importance of relative productivity levels and the increasing salience of the economic competition between nations. As such, it emphasized the importance of the quality of economic activity rather than the nationality of industry ownership. Heseltine claimed that nationality of ownership doesn't matter, stating that "any company operating in the United Kingdom" is a British company[82]. And Tim Eggar, Minister for Energy and Industry, assured in a parliamentary debate that "[o]nce overseas companies come to the United Kingdom, they are not foreign companies, they are British companies that happen to have foreign owners, and we shall fight for those companies … as hard as we fight for directly British-owned companies"[83]. Due to this perceived irrelevance of the nationality of company ownership and the shift in industrial strategy from creating strong national industries to fomenting the most productive and high-value adding economic activities, the attraction of inward FDI gradually turned into "the

[80] Michael Heseltine, *Life in the Jungle: My Autobiography* (London: Hodder & Stoughton, 2000), 431.
[81] See ibid., 416.
[82] Ibid., 419.
[83] In *UK Hansard, "Debates in the House of Commons." (*28 October 1994) vol 248 cc1115-84.

dominant aspect of British industrial policy"[84] and the government-led investment promotion activities coordinated through the IBB were scaled up significantly from 1993 onwards[85].

Somewhat surprisingly, the Labour Party, which had undergone a remarkable transformation from 1989 onwards[86], enthusiastically took up this shift in industrial policy. The new Labour leadership under Tony Blair and Gordon Brown, which fostered strong connections with Bill Clinton's 'new' Democratic Party[87], strongly emphasized the importance of inter-national economic competition and the 'imperatives of globalization'[88]. For example, in their manifesto for the 1992 general elections, the Labour Party ascertained that "Britain is in a race for economic survival and success. Faced with intense competition, companies and countries can succeed only by constantly improving their performance"[89]. According to the globalization narrative, they portrayed the new global economy as a regime in which the prosperity of a nation depends on the willingness of footloose companies to invest[90] and Brown assured investors that "[w]e understand that in a global market

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[84] David Bailey and Nigel Driffield, "Industrial Policy, Fdi and Employment: Still 'Missing a Strategy'," *Journal Ind Compet Trade* 7(2007): 189-90.
[85] See Dreyhaupt, *Locational Tournaments in the Context of the Eu Competitive Environment: A New Institutional Economics Approach to Foreign Direct Investment Policy Competition between Governments in Europe*, 124.
[86] See Mark Wickham-Jones, "Anticipating Social Democracy, Preempting Anticipations: Economic Policy-Making in the British Labor Party, 1987-1992," *Politics and Society* 23, no. 4 (1995).
[87] Desmond King and Mark Wickham-Jones, "From Clinton to Blair: The Democratic (Party) Origins of Welfare to Work," *The Political Quarterly* 70, no. 1 (1999).
[88] Watson and Hay, "The Discourse of Globalisation and the Logic of No Alternative: Rendering the Contingent Necessary in the Political Economy of New Labour," 2-3.
[89] "Labour Party Manifesto 1992: It's Time to Get Britain Working Again," http://www.politicsresources.net/area/uk/man/lab92.htm.
[90] See "The Discourse of Globalisation and the Logic of No Alternative: Rendering the Contingent Necessary in the Political Economy of New Labour," 25.

place, traditional national economic policies – corporatism from the old left – no longer have any relevance”[91].

Having achieved a bipartisan consensus on the changed nature of the global economy, the symbolism of inward FDI in political debates transformed dramatically. While inward FDI had primarily been conceived of as a threat or challenge to British industry in the 1960s-1970s, it now came to be reinterpreted as the main indicator of the confidence of global markets in the British economy and a symbol of economic success. Inward FDI flows came to be framed as “[o]ne of the best indicators of competitiveness”[92]. It was argued that “multinational businesses are free to choose where to invest”[93], that “international investors are the most objective of all investors”[94] and that “all those foreign business men can’t be wrong”[95] in their judgements. Accordingly, in the run-up to the 1997 General Election, the Conservative Party emphasized again and again its success at increasing inward FDI. Inward FDI figures play a prominent role in the Tories’ party manifesto for the 1997 general elections, in which they referred to levels of FDI inflows as “[h]ard economic evidence” in order to defend their economic record: “Britain attracts nearly forty per cent of all the American and Japanese investment in Europe. Our aim now is to safeguard these achievements and build on them, so Britain becomes the unrivalled Enterprise Centre of Europe.”[96] One Minister called

[91] In ibid., 14.
[92] Lord Astor of Hever in UK Hansard, "Debates in the House of Lords." (31 January 1996) vol 568 cc1454-500.
[93] Ibid.
[94] Mr. Yeo in UK Hansard, "Debates in the House of Commons." (23 November 1995) vol 267 cc786-8.
[95] Tim Eggar, Minister of Energy and Industry, in ibid. (28 October 1994) vol 248 cc1115-84.
[96] "1997 Conservative Party General Election Manifesto: You Can Only Be Sure with the Conservatives," http://www.conservativemanifesto.com/1997/1997-conservative-manifesto.shtml.

“inward investment … one of the Government’s and this country’s greatest success stories”[97] and another Conservative MP claimed it to be nothing less than “the single most dramatic and furthest reaching economic and industrial success story for any Government in the post-war period”[98]. Interestingly, in these debates Labour MPs did not contest this meaning or the very desirability of inward FDI, but only the causes of the inflows. While Conservative members attempted to interpret it as the outcome of the Party’s controversial decision to opt out of the EU’s social chapter, the Labour Party claimed it to be a confirmation of the world’s positive assessment of Britain as a ‘manufacturing nation’. Beyond these partisan tussles, it becomes clear that by the mid-1990s a cross-partisan agreement had crystallized, which conceived of FDI inflows as an unambiguously ‘good’ thing.

The election of the ‘New’ Labour government in 1997 further enhanced these views. Tony Blair underlined his strong support for inward investment[99] and committed not to intervene against foreign takeovers. Government efforts to attract inward FDI, further encouraged through the decentralization of industrial policy to the Regional Development Agencies, increased markedly during the Labour administration[100]. In the 2000s, the UK experienced an exceptional takeover boom, in which many major British companies in sectors that are generally considered to be highly sensitive – e.g. public utilities, defence, stock market – were acquired by foreign investors. If such events would without any doubt have caused a major political outcry two decades

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97 Ibid.

98 Sir John Stanley in "Debates in the House of Commons." (28 October 1994) vol 248 cc1115-84.

99 Tony Blair, *New Britain: My Vision of a Young Country* (London: HarperCollins Publishers, 1996), 122.

100 Nigel Driffield et al., "Inward Fdi in the United Kingdom and Its Policy Context," *Columbia FDI Profiles* (2012): 5.

earlier, now, instead, Tony Blair "boasted" that even 10 Downing Street sourced its water and electricity from French and German suppliers[101]. Quite remarkably, the opposition to this takeover boom was nearly mute. The Conservative Party fully agreed with Labour's non-interventionism and Vince Cable, deputy leader of the Liberal Party, simply commented that '[t]here is no room for nationalism and protectionism in a modern economy'[102]. *Guardian* commentator Tom Bower observed in February 2007 that "[e]very week, a bland announcement confirms the sale of another major British institution to a foreign predator and, bizarrely, no one is complaining"[103]. Indeed, foreign takeovers gradually became a political 'non-issue' as the data collected by Helen Callaghan[104] on the number of debates in UK parliament that use the term 'takeover', represented in Figure 6.3, illustrates: despite a marked increase in the FDI stock in the British economy in the 2000s, the word 'takeover' was rarely ever used in British parliamentary debates after the year 2000.

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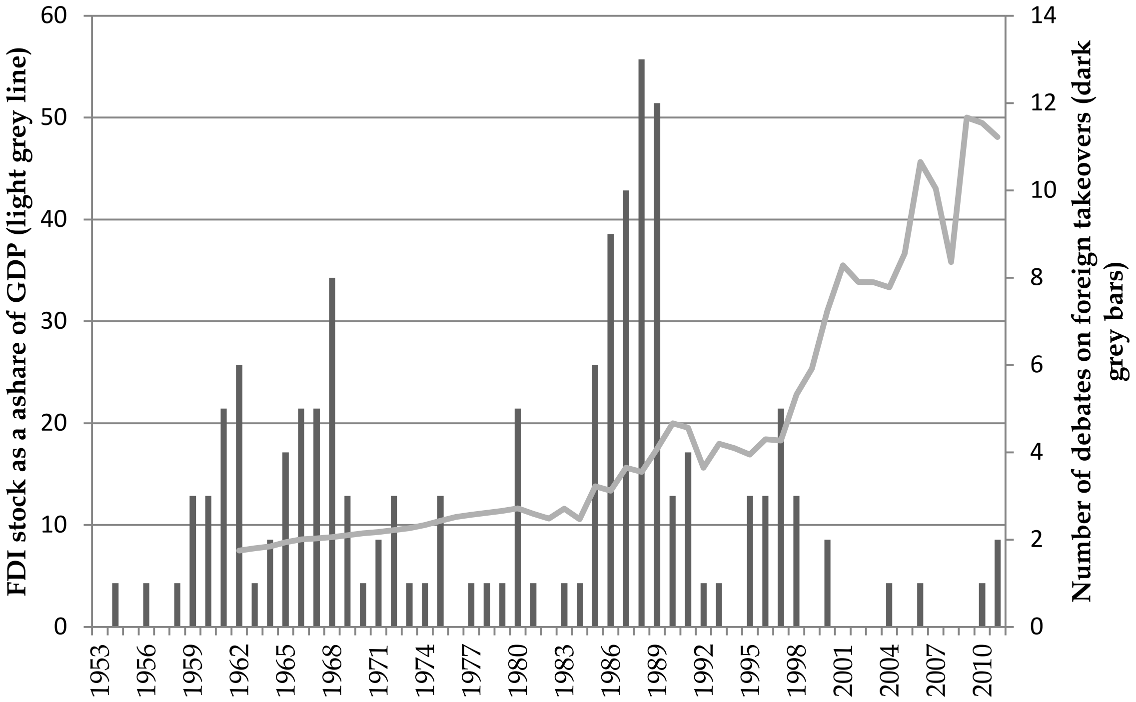
101 Helen Callaghan, "Something Left to Lose? Network Preservation as a Motive for Protectionist Responses to Foreign Takeovers," *Review of International Political Economy* 22, no. 2 (2015): 402.
102 Ibid.
103 In ibid., 391.
104 Ibid.

Figure 6.3. The number of debates on takeovers in UK parliament and the UK FDI stock over time



NOTE: The number of debates indicates the number of debates in the House of Commons and House of Lords that contained the term 'takeover' or 'take-over' at least five times. SOURCES: Number of debates from Callaghan (2015), based on UK Hansard; FDI stock from various sources (pre-1980) and UNCTAD (post-1980).

The reception of the emerging discourse of globalization and competitiveness in the UK was thus nothing short from enthusiastic. Thatcher's government had decidedly abandoned most projects of government intervention in industry. In accordance with her beliefs in the positive effects of market competition and the free flow of capital, she reinvigorated a neutral policy of 'benign neglect' towards inward FDI. In the 1990s, a clear cross-partisan consensus on the desirability of inward FDI emerged and the governments of John Major and Tony Blair turned towards a markedly more positive policy of active FDI attraction. The nationality of industry ownership was increasingly considered to be unimportant compared to the quality of economic activity that foreign-owned industries can bring. The very high inflows of FDI into the UK throughout the 1990s and 2000s were widely considered as a 'good thing' and raised very little resistance. Accordingly, Britain was generally considered to pursue a coherent, dedicated and effective FDI policy approach. The French response to globalization was rather different.

Developments in France, 1980s-2000s: Mondialisation? Merci, non merci.

In contrast to the UK, the state had traditionally played an important role in the French economy and national sovereignty was highly valued in the political discourse in France. As a result, rather than enhancing the domestic institutional arrangement as in the UK, the increasing embrace of market-based economic coordination and international competition in the global economic policy discourse put the French national institutional legacy under strain. Dissatisfaction with 'globalization' was widespread in France. Hubert Vedrine, French Foreign Minister from 1997 to 2002, openly expressed his view that "[g]lobalization develops according to principles that correspond neither to French tradition nor to French culture"[105]. As a matter of fact, struggling with sustained economic difficulties, the French elites opted to adopt many of the market-friendly and internationalist economic policies advocated by the competitiveness discourse. But, in contrast to the UK, they did so somewhat reluctantly and political elites failed to adapt a public

[105] Hubert Védrine, *France in an Age of Globalization*, ed. Dominique Moïsi (Washington, D.C.: Brookings Institution Press, 2001), 17.

discourse to justify this rather dramatic rupture with their institutional legacy and traditional state-society relationships[106]. In consequence, the cleavage between the material and the discursive institutions in France grew throughout the 1980s-2000s, leaving the French populace increasingly dissatisfied and the legitimacy of the political-economic elites undermined, while at the same time generating an incoherent economic policy strategy that sends conflicting signals, as the case of inward FDI policies demonstrates.

The first significant steps towards the gradual liberalization of the French economy were undertaken under the government of Giscard d'Estaing in the late 1970s[107]. These efforts, however, were brought to a sudden halt when François Mitterrand, who had campaigned on a platform advocating a 'break with capitalism' and 'socialism in one nation'[108], won a landslide victory in the 1981 presidential elections. After initiating an ambitious program of nationalizations[109], his coalitions' pledges to pursue an expansionary economic and social policy were, however, soon thereafter undermined by the world recession and the growing economic difficulties in France. Finally, faced with the expulsion of France from the Exchange Rate Mechanism, Mitterrand opted for a radical turn to economic liberalism in 1983. A cabinet

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[106] See Pepper D. Culpepper, Peter A. Hall, and Bruno Palier, eds., *Changing France: The Politics That Markets Make* (Houndsmill, Basingstoke: Palgrave Macmillan, 2006); Vivien A. Schmidt, "Trapped by Their Ideas: French Elites' Discourses of European Integration and Globalization," *Journal of Euopean Public Policy* 14, no. 7 (2007); "The Politics of Economic Adjustment in France and Britain: When Does Discourse Matter?," *Journal of European Public Policy* 8, no. 2 (2001); Hubert Vedrine, "Rapport Pour Le President De La Republique Sur La France Et La Mondialisation," (2007), 14.

[107] Hall, *Governing the Economy : The Politics of State Intervention in Britain and France*, 189-91; Schmidt, *From State to Market? The Transformation of French Business and Government*, 81-83.

[108] See "The Politics of Economic Adjustment in France and Britain: When Does Discourse Matter?."

[109] According to Dominique Strauss-Kahn, Minister of Industry in the early 1980s, the main goal of the nationalization programs was not to influence corporate strategy or the structure of the economy, but to recapitalize and rationalize firms and to protect them from foreign takeovers. In *From State to Market? The Transformation of French Business and Government*, 100.

reshuffle empowered the economically conservative Laurent Fabius and Pierre Bérégovoy, which subsequently led an ambitious program of economic liberalisation that included fiscal austerity, the privatization of state-owned companies, and the liberalization of the stock market as well as takeover regulations[110]. Similarly to the developments in the UK at the time, French policymakers gradually came to belief that French companies had to become accustomed of more intense international competition in order to succeed[111] and - despite their official placement on the opposite end of the ideological spectrum - they pursued a policy program that was on the whole not dissimilar from Thatcher's agenda[112]. However, in stark contrast to Thatcher's (and later Blair's) enthusiastic discursive embrace of market competition and globalization, French elites struggled to justify their moves towards a free internationally integrated market economy. Carrying a distinct discursive and ideational baggage, their discourse remained hostile towards free markets, liberal measures were generally presented as "necessary, if slightly distasteful, response[s] to the imperative of the global economy"[113] or, at best, as the lesser of two evils (such as when European integration in the 1990s was primarily justified as a 'shield' against Anglo-Saxon globalization[114]). As a result, the economic-political realities of the French economy, on the one hand, and the discourse on economic policy, on the

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[110] See ibid.
[111] Peter A. Hall, "Introduction: The Politics of Social Change in France," in *Changing France: The Politics That Markets Make*, ed. Pepper D. Culpepper, Peter A. Hall, and Bruno Palier (Basingstoke; New York: Palgrave Macmillan, 2006), 6.
[112] Ibid., 23.
[113] Ibid., 17.
[114] Schmidt, "The Politics of Economic Adjustment in France and Britain: When Does Discourse Matter?; Sophie Meunier, "The French Exception," *Foreign Affairs* 79, no. 4 (2000).

other, grew apart, leaving the political elites 'rhetorically entrapped'[115]. The paradoxical outcome is a society in which "[m]arkets and market power now set expectations in a wide array of fields, while French governments on the left and the right continue to assert their distaste for the market society"[116], leaving France as "a nation in search of a new vision"[117]. This tension and its tendency to lead to incoherent policy strategies – recalling in some ways the UK's half-hearted efforts at industrial policy in the 1960s – is strongly reflected in the development of France's inward FDI policy in recent years.

France's system of prior authorisations and sectoral restrictions was gradually opened up. To comply with EU law, the requirement of prior authorisation was abolished for EEA-investors in 1986, and finally for all investors in 1996 when France moved to an ex post notification regime[118]. At the same time, the corporate governance laws regulating takeovers were also gradually opened up to foreign participants. In the 1980s and early 1990s, this opening up was accompanied by a deliberate creation of a cross-shareholding structure - the so-called *'noyaux durs'* - to protect major French companies from hostile takeovers[119]. But the system was

[115] Schmidt, "Trapped by Their Ideas: French Elites' Discourses of European Integration and Globalization."
[116] Pepper D. Culpepper, "Capitalism, Coordination, and Economic Change: The French Political Economy since 1985," in *Changing France: The Politics That Markets Make*, ed. Pepper D. Culpepper, Peter A. Hall, and Bruno Palier (Basingstoke; New York: Palgrave MacMillan, 2006), 29.
[117] Peter A. Hall, "Introduction: The Politics of Social Change in France," ibid. (Palgrave Macmillan), 20-21. Nicolas Sarkozy initially seemed to attempt to resolve this tension through a more confident embrace of 'neoliberalism' in his successful campaign for the presidential elections of 2007. Yet, he soon back-tracked from this strategy, as when he declared that he had not supported Europe in order to have it become "a Trojan horse for a globalization reduced to the circulation of capital and goods" and insisted instead that it "must protect its people in the context of globalization by acting against the … offshoring of jobs." In Schmidt, "Trapped by Their Ideas: French Elites' Discourses of European Integration and Globalization," 1007.
[118] OECD, "Oecd Reviews of Foreign Direct Investment: France."
[119] See Schmidt, *From State to Market? The Transformation of French Business and Government*, 160.

dismantled in the late 1990s, leading to sharp increases in foreign ownership in the French economy. In fact, the FDI stock as a share of GDP in France was equal or above the observed levels in the UK in the late 1990s and early 2000s. Simultaneously, the French government started to actively promote inward investments through its embassy network from the early 1990s. In 2001, it centralized and enhanced these activities through the creation of a national IPA, the Invest in France Agency. However, while French government elites had gradually adopted the views and policies suggested by the globalization narrative, the *public* political debate about globalization and inward FDI was notably different. French politicians portrayed FDI inflows less as a symbol of economic success than a pragmatic choice to increase employment. As such, French politicians repeatedly emphasize the importance to distinguish 'productive' (i.e. greenfield) from 'financial' (i.e. takeover) FDI. While generally welcoming the former, they remained sceptical of the latter, which led to several high-profile government interventions to block foreign takeovers in the 2000s[120]. At the same time, in 2005 the government attempted to re-introduce a system of prior authorizations for inward FDI in eleven sectors deemed to be of 'national interest', which was subsequently watered down[121]. In the aftermath of the financial and ensuing protracted economic crisis in Europe, and especially after François Hollande's own U-turn in 2014, the government of the new Prime Minister Manuel Valls started to embrace inward FDI

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[120] Most famously, the rejection of ENI's proposed takeover of ELF in 1999, Novartis' failed bid for Aventis in 2003, and Pepsi's unsuccessful attempt to buy Danone -France's 'strategically important' yogurt producer - in 2005.

[121] David M. Marchik and Matthew J. Slaughter, "Global Fdi Policy: Correcting a Protectionist Drift," (Washington, DC: Council for Foreign Relations, 2008); Helen Callaghan and Lagneu-Ymonet, "The Phantom of Palais Brongniart: Economic Patriotism and the Paris Stock Exchange," *Journal of European Public Policy* 19, no. 3 (2012).

flows more explicitly by declaring 'investment attractiveness as a government priority' and the creation of a *conseil superieur l'attractivité*. In a parliamentary debate, Minister of Trade Nicole Bricq declared fiercely:

> "You want to know what we have to do? You will know it on 17 February when the President of the Republic will congregate the *Conseil supérieur de l'attractivité*. Yes, France is an attractive land, and we understand it very well to keep our place in Europe! We know that the fight with Germany is hard, as well as the fight with the United Kingdom where Mr Cameron is rolling out the red carpet for investors; we also know that we have the ability to take on this challenge. One thousand foreign direct investment projects per year, that's the new goal, instead of the seven hundred we are receiving now. We will make it!"[122]

And yet, only a few weeks later, to the great dissatisfaction of the EC, the same government issued a new decree that substantially extended the number of business sectors in which the government authorities are allowed to monitor and restrict foreign investments through the re-introduction of a system of prior authorization including a wide variety of economic sectors such as energy, transport, water, public health and telecommunications[123]. France's 'foreign affair' is, it seems, still a complicated one.

[122] Les Archives de l'Assemblee Nationale, "Question Au Gouvernment No 1606," in *Journel Officiel* (2014).

[123] Fried Frank, "French Decree Extends List of Foreign Investments Requiring Government Approval in Strategic Business Sectors," (2014). Reportedly the primary motivation was to protect Alstom from the bidding from Siemens and General Electric.

Public opinion data from France and the UK

Finally, in this last section, I assess the extent to which these trends and evolutions are reflected in public opinion data. A small number of studies have collected data on individual attitudes towards FDI in recent years. For a variety of reasons – such as differences in sampling strategies and the framing of survey questions – it would be problematic to compare the evolution of public opinion across different sets of surveys. Instead, the analysis pursued here focuses on differences *within* surveys rather than across them. More specifically, I analyze the relevant data from the UK and France in public opinion surveys from two well-respected sources: the data from the ISSP surveys on national identity used for the quantitative analysis presented in Chapter 4, and a large cross-national survey conducted by the *Pew Research Center* in 2014. In contrast to the elite surveys from the 1970s presented above, these surveys aim to measure *public* opinion towards FDI; that is, their samples are supposed to represent the national population as a whole rather than its elites. In general terms, as discussed in Chapter 4, there are good reasons to believe that the attitudes towards globalization of the former tend to be somewhat more negative than those of the latter.

I first analyze the ISSP data. Following the logic of the public opinion analysis presented in Chapter 4, Table 6.4 shows the proportion of respondents from the UK and France expressing negative views of inward FDI, separated by the birth cohort groups born before 1964 (i.e. individuals who completed their prime period of socialization before the rise of the globalization narrative) and those born after. In accordance with the findings from the quantitative analysis presented above, I find that younger cohorts express consistently more favourable views about the role of inward FDI than older cohorts. At the same time, consistent with the qualitative analysis presented in this chapter, I also find that for all subgroups public opinion in the UK is significantly more favourable towards FDI than in France. Moreover, the data suggests that the changes towards a more favourable view of FDI from 2003 to 2013 were much larger in the UK where the globalization narrative was highly prominent in political debates than in France where the public discourse remained sceptical of globalization.

Table 6.4. Percentage of respondents indicating to agree or strongly agree with the statement that '[l]arge international companies are doing more and more damage to local businesses in [COUNTRY]' in the UK and France, separated by birth cohorts

	Respondents' year of birth	**2003 survey**	**2013 survey**
UK	*After 1963*	62.03 [n=266]	52.67 [n=393]
	Before 1964	70.09 [n=535]	64.41 [n=399]
France	*After 1963*	78.04 [n=469]	74.74 [n=784]
	Before 1964	79.51 [n=981]	79.84 [n=982]

SOURCE: ISSP (2003, 2013)

Similar differences are also observed in the *Pew* survey. An interesting feature of this survey is that it asks respondents not only about their views about foreign companies in general, but distinguishes between their views of greenfield ('foreign companies building new factories'[124]) vs. M&A FDI ('foreign companies buying local companies'). The main results, presented in Table 6.5, confirm that the UK

[124] The term 'factories' is somewhat distorting because it evokes manufacturing FDI, which accounts for only about one quarter of total FDI in developed economies. See Chapter 3.

population expresses generally more favourable views of both types of FDI inflows. But at the same time, the survey also reveals stark differences in public opinion towards greenfield vs. M&A FDI: while majorities in both countries consider cross-border M&As as 'bad', greenfield FDI is welcomed by large majorities in the UK as well as France.

Table 6.5. Responses to Pew Survey Questions 31 and 32: In your opinion, when foreign companies (Q31) ***buy (survey country) companies*** **– (Q32)** ***build new factories in (survey country),*** **does this have a very good, somewhat good, somewhat bad, or a very bad impact on our country?**

	Perceived impact of foreign companies ***buying local companies***		**Perceived impact of foreign companies** ***building new factories***	
	Very good or somewhat good	Somewhat bad or very bad	Very good or somewhat good	Somewhat bad or very bad
UK	39	53	82	15
France	32	68	75	25

NOTE: Numbers do not necessarily add up to 100 due to non-responses. SOURCE: Pew Research Center, September 2014, "Faith and Skepticism about Trade, Foreign Investment"

CONCLUSIONS

The primary aim of the comparison of the evolution of discourses and policies towards inward FDI in the UK and France presented in this chapter was to empirically ground the theoretical claims, descriptions and patterns of cross-national correlations observed in preceding chapters. As a whole, the chapter suggests an interesting 'reversal of fortunes' of some sorts: In the 1960s and 1970s, when concerns about economic sovereignty were widespread in dominant economic narratives, politicians and policymakers in Britain and France both undertook efforts to regulate FDI inflows. Yet, the embrace of these policies was much firmer in France, whose statist legacy was in accord with the economic narrative predominant at the time. French policymakers carefully monitored FDI inflows, restricted foreign takeovers and imposed conditions on many FDI projects; an approach that contemporary observers described as coherent and effective[125]. In contrast, the regulatory policies pursued by Britain, whose liberal legacy was at odds with the statist transnational discourse, were half-hearted at best. Politicians loudly spoke about the need to regulate American companies, but failed to implement a coherent set of policies to do so and, most tellingly, even failed to collect systematic statistics on inward FDI until the mid-1970s[126]. Economic policymakers did impose conditions on a few high-profile foreign takeovers, but subsequently failed to monitor whether the conditions were actually met, etc. Not surprisingly, contemporary observers perceived British FDI policy in that period as contradictory and ineffective[127]. Yet, as the global discourse moved towards liberalism in the 1980s and an increasingly international version of liberalism in the 1990s, these fortunes started to shift. Both countries significantly opened up their FDI policy regimes in the 1980s and 1990s, created state programs to actively attract greenfield FDI and liberalized their takeover regulations, but it now was Britain, which was considered to be pursuing a coherent and successful strategy, while French FDI policy was judged as hesitant

[125] See Zysman, "The French State in the International Economy; Simon Reich, "Roads to Follow: Regulating Direct Foreign Investment," ibid.43(1989); Bailey, Harte, and Sugden, *Transnationals and Governments : Recent Policies in Japan, France, Germany, the United States, and Britain*.
[126] Max Steuer, "Policy Options for the Uk," *Intereconomics* 9, no. 3 (1974).
[127] See Blank, "Britain: The Politics of Foreign Economic Policy, the Domestic Economy, and the Problem of Pluralistic Stagnation; Simon Reich, "Roads to Follow: Regulating Direct Foreign Investment," ibid.43(1989); Bailey, Harte, and Sugden, *Transnationals and Governments : Recent Policies in Japan, France, Germany, the United States, and Britain*.

and full of contradictions[128]. As such, the comparison powerfully illustrates that economic narratives that are predominant at the transnational level at any specific point in time do not directly impose themselves upon national policymakers. Rather, to affect domestic politics, transnational norms have to be heard, adopted and translated by domestic actors. And the receptivity of such norms seems to depend crucially on the institutional and cultural environment that determines the 'translatability' of external ideas[129]. In some sense, I thus find that the transformations in transnationally predominant economic narratives are mirrored in a great variety of contexts, but that the clarity of the mirror depends on the local cultural-institutional legacy. An in-depth examination of the causal mechanisms, which determine how the principles advocated in transnational economic narratives interact with the preferences of domestic actors and the cultural-institutional environment in which they operate is beyond the scope of this thesis, but remains a promising avenue for future research.

[128] See Callaghan and Lagneu-Ymonet, "The Phantom of Palais Brongniart: Economic Patriotism and the Paris Stock Exchange; Callaghan, "Something Left to Lose? Network Preservation as a Motive for Protectionist Responses to Foreign Takeovers; Schmidt, "The Politics of Economic Adjustment in France and Britain: When Does Discourse Matter?; "Trapped by Their Ideas: French Elites' Discourses of European Integration and Globalization."
[129] See Risse-Kappen, "Ideas Do Not Float Freely: Transnational Coalitions, Domestic Structures, and the End of the Cold War."; Acharya, "How Ideas Spread: Whose Norms Matter? Norm Localization and Institutional Change in Asian Regionalism."

CONCLUSIONS

Existing studies in IPE and the social sciences more broadly have given little consideration to the economic meaning commonly attributed to inward FDI. Instead, dominant approaches have generally conceptualized FDI inflows simply as a brute material fact: a physical inflow of capital with clear economic and political consequences. Although this conceptualization is not wrong *per se*, it is incomplete. By focusing only on the 'real' effects and consequences of FDI inflows, the existing literature on the politics of FDI largely brackets out questions of how policymakers, analysts and the wider population *perceive* inward FDI and what they believe their effects and consequences to be. If the latter were mere reflections mirroring the former, this oversight would be of little consequence. However, as this thesis aimed to argue theoretically as well as to demonstrate empirically, the perceptions of FDI inflows and the economic meaning that is commonly attached to them can go far beyond the observed 'real' trends and transformations in FDI flows' underlying material reality.

Although the nature of FDI has certainly undergone some structural changes over the past five decades, as I have argued throughout this thesis, the simultaneous transformations in dominant perceptions of inward FDI have been far more dramatic than any such underlying material changes could possibly justify: whereas FDI inflows were widely considered – even among internationalist sections in liberal economies - as a potential threat for the long-term industrial development of an economy and a sign of economic weakness in the 1960s and 1970s, they came to be re-interpreted as the exact opposite, namely a symbol of competitiveness and economic success, in the policy discourses emerging in the late 1980s and early 1990s.

The first key goal of this research project has been to make sense of these transformations. In an attempt to do so, I have situated the rather stunning observed changes in the predominant social representations of inward FDI within broader ideational evolutions. In particular, I have focused on the concept of economic narratives as socially widespread cognitive frameworks that individuals use to make sense of the complex economic systems that surround them, and I have aimed to show the close alignment of the changes in the social representations of inward FDI with the evolution in predominant economic narratives during the post-war era.

The second key objective of the research was to assess whether and to what extent these ideational transformations matter. To address these questions, I have conducted both quantitative and qualitative investigations. Examining data on public opinion towards inward FDI and results from general elections in cross-national samples of advanced economies, I have found consistent evidence that public attitudes towards FDI as well as voter reactions to increases in FDI became notably less hostile with the rise of the globalization narrative. Tracing policy developments in the UK and France, I observed a widespread and significant re-framing in the interpretation of the meaning and significance of FDI inflows among policymakers and corresponding changes in inward FDI policies that closely followed the evolution of predominant narratives.

As a whole, I hope that by integrating these nonmaterial considerations in a systematic manner into the analysis of the politics of FDI the thesis makes a substantial contribution to better understand the developments of FDI policies in recent years. Although a rapidly growing stream of literature has enlightened how competitive pressures have pushed governments to remove regulations on inward FDI[1], to sign international agreements granting greater legal protections to foreign investors[2] and to pursue ever more aggressive FDI attraction policies such as the provision of generous incentive packages[3], the underlying question why governments *want* to increase FDI inflows in the first place has received little attention. Arguably, the desirability of FDI inflows and governments' willingness to attract them have been largely taken for granted. However, as I have shown, reviewing the numerous empirical investigations of the effects of FDI inflows or taking a more historical perspective on the developments of FDI policies and the relevant policy discourses throughout the post-war era are both fruitful ways to realize that policymakers' enthusiasm for FDI is in fact far less 'obvious' than it may seem and not simply something that explains, but also something that needs explaining. In a nutshell, the investigation pursued here has suggested that it derives to a significant extent from a transformation not in the material structure of the world economy, but in the perceptions thereof, which in turn was a critical

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1 Strange, Stopford, and Henley, *Rival States, Rival Firms: Competition for World Market Shares*; Oman, *Policy Competition for Foreign Direct Investment: A Study of Competition among Governments to Attract Fdi*.
2 Simmons, Guzman, and Elkins, "Competing for Capital: The Diffusion of Bilateral Investment Treaties, 1960-2000; Barthel and Neumayer, "Competing for Scarce Foreign Capital: Spatial Dependence in the Diffusion of Double Taxation Treaties."
3 Thomas, *Competing for Capital*; *Investment Incentives and the Global Competition for Capital*.

development to make the 'race for FDI' first a possibility and then a largely uncontroversial political reality.

Extensions of the argument

Albeit FDI flows are an intrinsically global phenomenon, in order to keep the project manageable, the focus of the investigation was limited to advanced economies in the period lasting from the 1960s until 2007 without giving due consideration to the concurrent developments in non-OECD economies or the trends in the aftermath of the Financial Crisis of 2007-08. Without undertaking a full-fledged examination of these issues, the two following sections discuss the degree to which the argument can be extended geographically and chronologically in these directions in more general terms. Finally, the last paragraph will conclude by briefly considering some of the policy implications of the findings of this research.

Simultaneous developments in non-OECD economies

On the face of it, patterns of concurrent developments in predominant economic narratives and inward FDI policies in non-OECD economies are similar to those observed among advanced economies. In the 1960s-70s, nearly all developing countries pursued strategies of economic development that can be described as 'statist' and typically included the adoption of strong measures to monitor, restrict and regulate FDI inflows. Subsequently, as it is well known, a majority of developing countries moved – to different degrees[4] - towards the adoption of a more liberal economic stance, including the adoption of a more welcoming attitude towards foreign companies.

Among the many nuances and qualifications in these developments that a fuller treatment of these issues would undoubtedly need to consider, two key differences to concurrent developments in OECD economies stand out. Firstly, the embrace of statist economic policies was typically firmer in developing economies than in advanced economies and attitudes towards foreign multinationals were generally more explicitly hostile, making the subsequent shifts in policy appear even more abrupt than in advanced economies. In particular in the late 1960s and early 1970s, acts of expropriations of foreign firms in developing countries – almost unheard of among advanced economies – turned into a fairly frequently occurring event in international affairs[5]. From the mid-1970s onwards, expropriations became less common, but a majority of developing country governments continued to maintain strong regulatory measures[6]. A number of reasons can account for developing country governments' generally more hostile attitudes towards foreign multinationals than those of their peers in advanced economies. Most importantly,

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[4] Admittedly, the degree of these changes varies considerably, ranging between the extremes of Hong Kong and North Korea.

[5] See Stephen J. Kobrin, "Foreign Enterprise and Forced Divestment in Ldcs," *International Organization* 34, no. 1 (1980); "Expropriation as an Attempt to Control Foreign Firms in Ldcs : Trends from 1960 to 1979," *International Studies Quarterly* 28, no. 3 (1984); "Diffusion as an Explanation of Oil Nationalizations: Or the Domino Effect Rides Again," *Journal of Conflict Resolution* 29, no. 1 (1985); Raymond Vernon, *Sovereignty at Bay: The Multinational Spread of Us Enterprises*, The Harvard Multinational Enterprise Series (Harmondsworth: Penguin Books, 1971); *In the Hurricane's Eye: The Troubled Prospects of Multinational Enterprises* (Cambridge, Massachusetts: Harvard University Press, 1998).

[6] Inward investment regimes of developing countries were typically at least as restrictive as those of the most restrictive advanced economies such as France, Canada and Japan. Cf. Golub and Koyama, "Oecd's Fdi Regulatory Restrictiveness Index: Revision and Extension to More Economies."

the prolonged struggles for decolonization had naturally raised their sensitivity to issues of foreign control and made them value national independence and economic sovereignty particularly strongly. At the same time, popular doctrines in economic development policy debates at the time – in particular the so-called 'dependency school' theory – was highly sceptical of the development benefits of FDI and the promise of global economic integration as a development strategy more generally, instead strongly advocating government intervention aimed at building nationally-owned industries (a strategy known as 'import substitution industrialization').

A second notable difference to the concurrent developments in advanced economies consists of the relatively greater role played by international institutions, such as the IBRD/World Bank Group and UNCTAD, which strongly encouraged the re-thinking of government policies towards foreign multinational companies in developing countries through their policy advice as well as the provision of financial incentives. As it is well known, while the World Bank had been broadly supportive of statist approaches to economic development throughout the 1960s and 1970s[7], it subsequently turned into a strong advocate of a liberal development policy paradigm whose principal traits John Williamson (in)famously defined as the 'Washington Consensus' and which explicitly included the 'Liberalization of Inward Foreign Direct Investments' as one of the ten key reforms[8] "more or less everyone in Washington would agree were needed more or less everywhere"[9]. Similarly, UNCTAD's stance on industrial policy shifted remarkably from an emphasis on

[7] See Ravi Kanbur, "The Co-Evolution of the Washington Consensus and the Economic Development Discourse," *IDEAS Working Paper Series from RePEc* (2009).
[8] Point 7 in John Williamson, "A Short History of the Washington Consensus," in *From the Washington Consensus towards a new Global Governance* (Barcelona2004), 3.
[9] Ibid., 1.

governments' "right to nationalization"[10] of foreign-owned companies' assets in the 1970s to its general advice to liberalize inward FDI policies from the early 1990s onwards[11].

Acknowledging such differences in the political processes in which the ideational transformations in the conceptualization of inward FDI played out in non-OECD economies, the broad patterns of the change in predominant narratives from a discourse of economic statism towards a narrative of globalization is also observable among policy elites and public opinion in developing countries. This being said, without elaborating the great heterogeneity among non-OECD economies in any detail, it also remains clear that these dynamics have played out differently in various contexts and not all developing countries have embraced FDI inflows to the same extent. Cross-national public opinion data from the *Pew Research Center's* Global Attitudes Survey indicate some interesting patterns in these regards. A survey conducted in 44 countries in 2014 suggests that respondents in developing countries express generally more favourable views of FDI than respondents in advanced economies and among the former respondents from lower-income economies express relatively more favourable views than respondents from middle-income economies[12]. Specifically, the survey found that 74 per cent of respondents from advanced economies expressed a positive view of greenfield FDI compared to a similar 70 per cent in middle-income economies, but 85 per cent in lower-income

[10] See the 'Declaration on the Establishment of a New International Economic Order', adopted by the UN's General Assembly in 1974. UN Resolution A/RES/S-6/3201.
[11] See Walter and Sen 2009: 195. Tagi Sagafi-nejad, *The Un and Transnational Corporations : From Code of Conduct to Global Compact*, ed. John H. Dunning and Howard V. Perlmutter (Bloomington: Indiana University Press, 2008).
[12] Pew Research Center, "Faith and Skepticism About Trade, Foreign Investment," 13-14.

economies; and while only 31 per cent of respondents in advanced economies expressed a favourable view of M&A FDI, 44 per cent did so in middle-income economies and 57 per cent in lower-income economies[13]. With regards to regional differences, the 2014 survey as well as an earlier survey conducted in 2003 similarly suggest that respondents from Africa and East Asia have particularly positive views of multinational companies, followed by Latin Americans while respondents from South Asia and the MENA region tend to express the most negative views (including more negative views than those of respondents from advanced economies) [14].

Trends since 2007

A wide range of commentators have suggested that the Financial Crisis of 2007-08 and its widespread consequences marked an inflection point in the history of the global economy, fostering a partial reversal of globalizing trends[15]. According to several analysts, the evolution of inward FDI policies after 2007 lends further support to such hypotheses. For example, in a report entitled *Global FDI Policy: Correcting a Protectionist Drift*[16], the *Council on Foreign Relations* warned in 2008 of the

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[13] Ibid., 13.
[14] Ibid., 14; "Views of a Changing World," (2003), 97. See also Marcus Noland, "Popular Attitudes, Globalization and Risk," *International Finance* 8, no. 2 (2005).
[15] In particular the increase in economic importance of states pursuing state-led economic management strategies such as China and Russia, the international expansion of state-owned or state-influenced companies and investment funds and the rise of globalization-skeptical political parties in Europe and the United States are frequently cited as evidence for such trends.
[16] Marchik and Slaughter, "Global Fdi Policy: Correcting a Protectionist Drift."

rise of ‘investment protectionism’ arguing that “calls to restrict investment are growing louder in many countries.”[17]

Although the underlying observation that a variety of countries adopted new restrictive measures on inward FDI in the mid-2000s – particularly on the grounds of ‘national security’ - is accurate, these developments must be put into perspective. A large share of these measures were related to the dramatic but (with hindsight) short-lived increases in commodity prices in the mid-2000s and the rise of new types of investors, such as state-owned companies from emerging markets (especially China) and sovereign wealth funds. While the former were largely opportunistic moves, the latter – mirroring in some ways the reactions to the rise of American FDI in Europe in the 1960s and the concerns about Japanese FDI in the USA in the 1980s – are the result of uncertainties about new specific types of investments rather than a more sceptical stance towards FDI in general.

A more objective evaluation of the general trends in national FDI policies seem to point rather in the opposite direction of a sustained movement towards greater openness: in fact, between 70 and 85 per cent of the changes undertaken to national FDI policies in each year since 2007 tracked by UNCTAD’s *Investment Policy Monitor Database* consisted of regulatory moves towards the liberalization and promotion (rather than the restriction or increased regulation) of FDI[18]. And in some sense, the prolonged economic crisis might even have increased policymakers’ desire to attract

[17] Ibid., v.

[18] UNCTAD, "World Investment Report 2016: Investor Nationality: Policy Challenges," (Geneva: United Nations, 2016), 90-91. For a more detailed discussion of the (absence of) an effect of the Financial Crisis on global FDI policy, see Gary Clyde Hufbauer and Lauge Skovgaard Poulsen, "Foreign Direct Investment in Times of Crisis," *Transnational corporations* 20, no. 1 (2011).

FDI as part of their efforts to stimulate economic growth. For example, suggestive of such dynamics, some of the Southern European countries hardest hit by the crisis (such as Italy, Greece, Spain and Portugal) who had traditionally shown less interest in the attraction of FDI than most other OECD economies were among the first ones to openly court state-owned companies and investment funds from China[19].

Similarly, at least in the area of FDI, there is little evidence to support the frequently made claim that the Financial Crisis of 2007-08 led to increased *popular* dissatisfaction with *economic* globalization. In effect, the results from the *International Social Survey Programme*'s cross-national surveys on national identity (referred to extensively in Chapter 4) suggest otherwise: in no less than 19 out of the 23 surveyed countries, respondents' views of the impact of FDI for the local economy were more positive in 2013 than they had been in 2003[20]. Although increases in migration and the political power of supranational institutions – such as those of the EU – have become controversial political issues throughout the developed world in recent years, it is not clear that attitudes towards economic aspects of globalization have deteriorated in the same way.

[19] See the Financial Times' "Silk Road Redux" series published throughout October 2014, available online: http://www.ft.com/indepth/silk-road-redux [last accessed: 18 July 2016]. For an overview of the series, see Jamil Anderlini, "Chinese Investors Surged into Eu at Height of Debt Crisis," *Financial Times*, 6 October 2014.

[20] Interestingly, the ISSP surveys suggest a similar positive evolution in attitudes towards international trade, while public opinion during the same period tended to become more hostile towards immigration and international organizations. At the least, these patterns suggest that a more thorough analysis of the evolution of public opinion towards globalization would have to differentiate between various dimensions of the phenomenon of 'globalization'.

Policy implications

Having elaborated some of these extensions of the argument, this final paragraph will reflect upon the more 'practical' implications of the findings of this research project.

Primarily, they relate to the notable *symbolic* value that has come to be attributed to FDI inflows in current policy discourses and to which previous studies have given little (if any) consideration. As I have suggested throughout this thesis, economic narratives – a key function of which is to *simplify* things in order to make them intelligible – tend to systematically overemphasize certain aspects of economic reality while downplaying others. Thereby they can inadvertently blur otherwise rational and pragmatic policy analyses with the normative or symbolic elements that underpin those narratives. As we have seen, while the statist narrative tended to exaggerate the negative implications of FDI inflows and underrate its potentially positive aspects in the 1960s-70s, there are strong indications that currently predominant FDI policy discourses, linked to the globalization narrative, instead tend to overemphasize FDI's beneficial effects.

In particular, the rise of the globalization narrative has led to a very strong discursive association between FDI inflows and national levels of 'competitiveness', suggesting that increases (decreases) in inward FDI are an indication that an economy is doing well (poorly).Yet, although this connection seems to be intuitively compelling, its foundations are far from being obvious[21]: While some analysts seem

[21] See Lukas Linsi, "Less Compelling Than It Seems: Rethinking the Relationship between Aggregate Fdi Inflows and National Competitiveness," *Columbia FDI Perspectives* (Forthcoming).

to suggest that FDI inflows are a clear *cause* of higher levels of productivity because internationally competitive firms bring know-how to its host economies, the extent and the conditions under which this is the case is strongly debated in the literature examining the empirical effects of inward FDI, as we have seen[22]. Although it is very well possible that such dynamics *can* play out if the economic environment is conducive to them, the available empirical evidence strongly suggests that they are by no means automatic and shouldn't be taken for granted. Similarly, other commentators conceptualize FDI inflows as an *outcome* of a competitive economic environment, suggesting that the decisions of internationally mobile firms to locate in a specific host economy indicate that its economic environment is competitive in international comparison. Again, this may very well be true for specific types of FDI projects, but is not necessarily the case. For example, a large number of FDI projects are motivated by corporate strategies seeking access to consumer markets or natural resources rather than the most competitive economic environment. At the same time, many mergers and acquisitions are arguably driven by considerations that target companies are under-performing and, in this sense, the associated FDI inflows may even be a sign of economic weakness rather than strength, etc. In short, although specific FDI projects are certainly related to considerations about host economies' levels of productivity and competitiveness, this is not generally the case (and certainly not at the high level of abstraction at which aggregate FDI statistics are collected).

[22] Cf. Discussion in introduction chapter.

In this sense, it seems fairly clear that governments' enthusiasm for FDI derives not solely from their observation of real positive effects associated to FDI inflows. Instead, as the findings of this research strongly suggest, the establishment of ambitious FDI attraction programs may be as much the result of policymakers' determination to follow the script to 'compete with other nations' that the globalization narrative provides – as well as the close correspondence of the structure of the global market for FDI with the zero-sum logic underlying the narrative - as it is the result of careful analyses concluding that the country's economy would benefit from additional FDI inflows of a specific type[23].

This is not to suggest by any means that FDI inflows are 'bad' and that governments are wrong trying to attract them. Instead, this thesis constitutes a call for an undogmatic approach to economic policy, which is wary of the power of the language we use and the symbolic-normative underpinnings that are inherent to it and which is able to accept that FDI is neither 'good' nor 'bad' *per se*, but a complex and highly specific economic transaction with many potential implications but, ultimately, very little meaning.

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[23] I owe this suggestion to Rawi Abdelal.

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APPENDIX

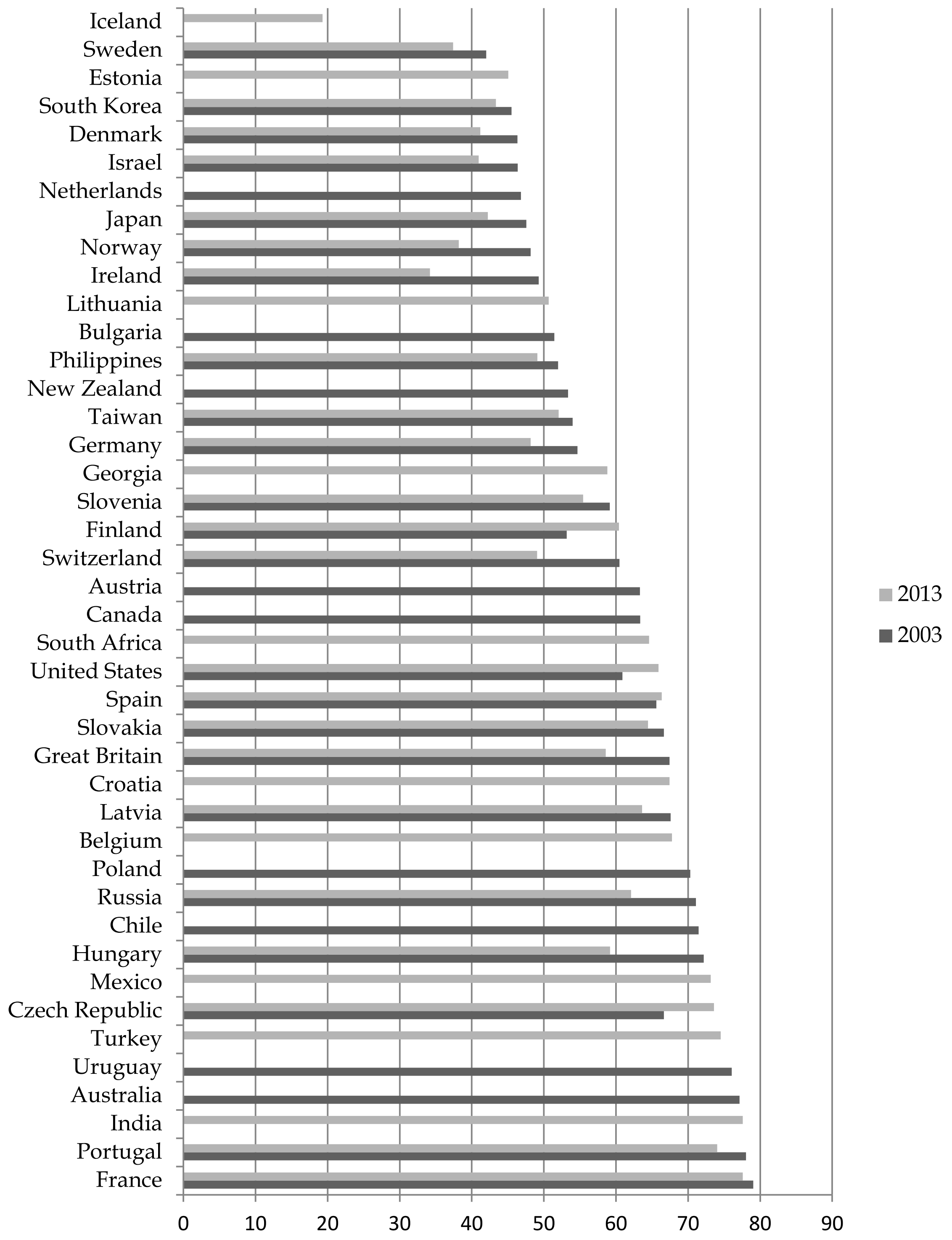
CHAPTER 3.

Table A-3.1. Cumulative total FDI inflows (in million current USD) from 1970-2013 by country

	TOTAL FDI INFLOWS, 1970-2013	PERCENTAGE OF TOTAL WORLD FDI, 1970-2013	CUMULATIVE PERCENTAGE
United States	3774264	16.5	16.5
United Kingdom	1629715	7.1	23.6
China	1476748	6.5	30.1
Belgium*	1133397	5.0	35.1
France	946330	4.1	39.2
China, Hong Kong	863295	3.8	43.0
Germany	805038	3.5	46.5
Canada	759382	3.3	49.8
Spain	654472	2.9	52.7
Netherlands	639838	2.8	55.5
Brazil	613209	2.7	58.2
Singapore	561138	2.5	60.6
Australia	533941	2.3	63.0
Russian Federation	499411	2.2	65.2
British Virgin Islands	459335	2.0	67.2
Mexico	456082	2.0	69.2
Sweden	354981	1.6	70.7
Italy	331556	1.5	72.2
India	293492	1.3	73.4
Switzerland	290848	1.3	74.7
Ireland	255967	1.1	75.8
Saudi Arabia	224653	1.0	76.8
Chile	204523	0.9	77.7
Poland	184142	0.8	78.5
Korea, Republic of	173781	0.8	79.3
Argentina	170059	0.7	80.0
Cayman Islands	165500	0.7	80.8
Norway	160046	0.7	81.5
Luxembourg	155869	0.7	82.1
Turkey	151825	0.7	82.8
Malaysia	146692	0.6	83.4
Austria	142501	0.6	84.1
Thailand	139454	0.6	84.7
Colombia	131377	0.6	85.3
Denmark	129910	0.6	85.8
Japan	123560	0.5	86.4
Rest of the World	2996536	13.6	100

SOURCE: UNCTAD Stats. NOTE: *From 1970 to 2001, the data for Belgium includes FDI flows to Luxembourg, thereafter they are recorded separately

Figure A-4.1. The Percentage of respondents expressing a negative view of foreign companies by country



SOURCE: International Social Survey Programme 2003 and 2013