Introduction

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MULTINATIONALS

For long periods of time, in both policy as well as scholarly circles, multinational corporations were approached with quite a bit of suspicion, especially in relation to the effects of their behaviour for developing countries. With their quintessential reach into many different countries, multinationals can tap into a broad set of resources. As a consequence, their intentions were questioned, their workings were deemed inherently hurtful to developing countries, and especially to the very poor living there, and they were believed to offer goods and services that hurt rather than benefit the interests of consumers in the countries hosting their subsidiaries. Whether or not these claims ever held water, and despite the fact that some still believe these claims hold true, the situation seems to have changed in recent times.

Especially in recent years, the contribution of multinational enterprises is not just noticeable through international production activities or in the impact of their activities on such macroeconomic variables as financial flows and trade.

Multinationals are now seen as being potentially able to contribute to the economic as well as technological development, particularly of those developing and emerging economies. The explanations for such a dramatic change are to be found in the transformations of the world economy over the last 20 years or so, in the evolution of the multinationals themselves, and in how these two movements interact with one another.

Innovation is one of the main, if not the most, important sources of unique resources or assets that shape the competitive advantages of multinational corporations – their so-called firm-specific or ownership advantages. Notwithstanding the crucial role of the institutional and systemic conditions under which the innovation process takes place at country level, firms are the main *locus* of innovation (Nelson and Winter, 1982).

Yet, it is possible to exploit, sustain and improve the firm-specific advantages that propel multinationals' expansion worldwide. Although the size of multinationals may mean that not all information and knowledge is optimally shared within each of them, their formal and hierarchical structure does tend to promote specialization. A divisional set-up ensures that individuals and groups within multinationals may be more likely to interact and exchange relevant information than they would have been on opposite sides of organizational boundaries. Multinationals have been able to develop a deep and extensive knowledge base. The expansion of multinational firms far beyond the borders of their original home markets, as global actors *par excellence*, is partly driven by the creation and diffusion of technological knowledge within firm boundaries. Innovating at the global level, yet local in the sense of staying within the firm. Some multinationals have rearranged their R&D activities, offshoring these activities primarily, so far, to adapt products developed in the central R&D Lab to local market conditions. The knowledge and other resources multinationals can draw on may include those that can assist in making sure that any economic or technological development they contribute to is sustainable as well.

As key players of the global innovation process multinationals are active in defining the global frontier of technological knowledge. As the main creators of (industrial) technologies, multinationals represent an important channel for the diffusion of technologies and innovations across national borders. The importance attached to innovation as driver of sustainable growth has been central in turn in a number of countries' economic policies to multinationals. Countries and firms – multinationals or otherwise – have pursued innovation as their engine for their sustainable growth. This quest for both innovation and sustainability can be assumed as the central link between multinationals and national economies. Sometimes the two goals may not be compatible, but sometimes they may. Particularly relevant in this regard is the link between multinationals and the so-called emerging economies.

EMERGING ECONOMIES

Having foreign multinationals within the national border, or having local firms that ally with multinationals, is a familiar experience to countries worldwide. In relation, the rapidly growing economies of Asia, eastern parts of Europe and Latin America have drawn quite a bit of attention. Emerging economies have seen in innovation a way to catch up with the world's most advanced countries. Much is expected of them for their inhabitants as well as for the world economy as a whole. They may, for instance, reduce the extent to which a stable economic situation globally is dependent on just one or a few economies. They may be sources of technological development and economic growth and they may alleviate poverty and inequality.

As such countries become more important, however, use of the term 'emerging economies' may begin to feel inappropriate. In absolute terms, for instance, the Chinese economy is among the largest economies already, albeit not in terms of income per capita. Capitalization of some Chinese companies ranks them among the biggest ones in the world too – this cannot be attributed only to idiosyncrasies of Chinese capital markets or Initial Public Offering policies and related financial markets regulation faced by those firms. Examples include PetroChina, Lenovo and Sinopec in China, Arcelor-Mittal, Mahindra & Mahindra and Tata from India, Vale, Petrobras and Embraer from Brazil, and CEMEX, Grupo Alfa and Grupo Bimbo from Mexico.

A similar problem of definition arose when Japan rose to economic prowess. While assimilating one country under the umbrella of 'western' countries and economies, doing so for whole swathes of them would make the term ultimately meaningless. Using the arguments to include Japan in the G8, for instance, will no longer do without making the institution unwieldy. It raises the issue of how to structure a governance model to take care of supra-national affairs (*The Economist*, 2008).

Multinationals are bound to play an important role in this.Increasing interdependencies of countries and economies across the globe is not only evident from an economic and technological perspective; social and ethical responsibilities cannot be ducked by multinationals. This holds for how clinical trials are undertaken, for how dire poverty in the bottom of the pyramid is to be tackled. Some, indeed quite a few, multinationals are aware of this and are actively involved. Some see such considerations as a fringe phenomenon, perceiving it as something that they are required to do in order to show some kind of corporate (social and environmental) responsibility. Others are more centrally involved and, thus, seek to make a profit, at least at some point, in developing and emerging economies while minding the social and ethical considerations faced.

While Albert Hirschman (1982) hinted at the effects of market on society being civilizing, destructive, or feeble as a theoretical question, we suggest that the answer is very much dependent on empirical circumstances and choices by actors involved. Multinationals and national governments play an important role here.

INNOVATION AND SUSTAINABILITY

The quest for innovation and sustainability is at the heart of concerns among different groups of actors in the current globalization era (Freeman, 2003). Policymakers, business community, scholars and so forth recognize innovation as the crucial driver of competitiveness and economic development. Innovation may both clash with and encourage the sustainability of the economic processes in an environmental and social sense – partly depending on the institutional context in an emerging economy.

Innovation has been defined from different perspectives. In essence, it is understood as a change resulting from the creation of new technological knowledge and its introduction into the market. *Stricto sensu*, innovation represents a change in relation to the world market, and a true novelty at the edge of the world technological frontier (Kim and Nelson, 2000; Bell and Albu, 1999). The developmental impacts of an innovation depend on the level of novelty and originality of the (technological) change it implies to the market and to the knowledge frontier, and on the systemic environment under which it takes places.

The ability of countries and their institutions and organizations, firms particularly, to introduce innovations into the global market in a sustained manner is at the core of the matter in explaining the gap between developed and developing economies. Hence, innovation is the key element for the catching up of countries lagging behind in the global economy.

Sustainability refers to a cumulative and persistent trajectory of growth, at economic level – the *economic sustainability*; or at firm level – the *business sustainability*; an inclusive growth trajectory that yields benefits to people at different levels of social position, both within countries and worldwide – the *social sustainability*; and a growth trajectory that recovers and preserves the natural environment, and is well balanced in terms of exploitation of natural resources – the *environmental sustainability*. In all of these senses, sustainability can be linked to the cumulative and path dependent nature of the innovation process (Nelson and Winter, 1982). If developing economies, the emerging one in particular, are to catch up with the developed ones, they are to reach a sustainable innovation process, economically, socially and environmentally. Multinationals are due to play a part in it.

THIS VOLUME

This volume sheds new light on these connections, bringing together insights from business studies and economics. It provides novel and profound analyses of how multinational corporations and emerging economies are related to one another, and how this relationship is implicated in the dynamics of the global economy. It combines the perspectives of both firms and countries; it addresses multinationals from developed as well as emerging economies; and deals with sustainability in an environmental and a social sense as well as keeps an eye for the strategic choices that multinationals face.

Moreover, it combines concise theoretical discussion with empirical analyses of unique data, quantitative as well as qualitative. The chapters have all been discussed extensively in a series of regular seminars involving the editors and the authors of the chapters, as well as during a one-day workshop at UNU-MERIT in November of 2007. By having a firm basis in empirical knowledge and analyses, chapters in this volume offer valuable insights on the multifaceted role multinationals have to play in the economic development of emerging countries. Two *intermezzi*, authored by internationally well-known scholars who are experts in the field, provide the kind of backdrop and critical note that readers might find valuable.

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