

## REFLECTIONS ON ORGANISATIONAL CHANGE AND INTERDEPENDENCE IN A POST-COVID-19 SOCIETY

by Grazia Ietto Gillies

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Taking the lead from the publication of the 2020 UNCTAD Trade and Development Report, the paper reflects on two issues arising from it: *a*) the need to invest in organisational change alongside investment in physical and digital infrastructure; and *b*) the increased interconnections and interdependence between countries since WWII. The current interconnections are due to economic exchanges as well as to environmental problems caused by climate change and health problems arising from the ongoing Covid-19 pandemic. The paper highlights the multiplying effects of interaction between these three areas of interdependencies: economic, environmental, and health. Section 4 discusses the key role of transnational corporations (TNCs) in the interconnections and interdependence of countries. It considers their role in integration between countries, as well as their fragmentation role towards labour, suppliers, and governments. Section 5 discusses multilateralism and, specifically, the need for a new type of multilateralism to take on board the new reality of the XXI century; a reality that encompasses the transnational corporations, among which the digital TNCs have a key role.

*Keywords:* organisational change, countries interdependence, international trade, FDI, transnational corporations, digital transnationals, multilateralism, environment, Covid-19 pandemic and economics.

Partendo dal Rapporto UNCTAD 2020 su commercio e sviluppo, il presente contributo fornisce una riflessione su due aspetti che emergono da tale documento: *a*) la necessità di investire nel cambiamento organizzativo, oltre che nelle infrastrutture fisiche e digitali; e *b*) le crescenti interconnessioni e interdipendenze tra Paesi che sono venute delineandosi a partire dalla Seconda guerra mondiale. Le attuali interconnessioni sono dovute agli scambi economici nonché ai problemi di natura ambientale causati dal cambiamento climatico e dall'attuale emergenza sanitaria da Covid-19. Il contributo evidenzia gli effetti moltiplicatori dell'interazione tra le seguenti tre aree di interdipendenza: l'area economica, l'area ambientale e l'area sanitaria. La Sezione 4 si focalizza sul ruolo chiave che le società transnazionali giocano in relazione alle interconnessioni e alle interdipendenze tra i vari Paesi. Più nel dettaglio, l'analisi si concentra sul ruolo che tali società giocano in riferimento all'integrazione tra Paesi, nonché sulla frammentazione di cui esse sono causa per quanto riguarda i lavoratori, i fornitori e i governi. La Sezione 5 affronta il tema del multilateralismo e, nello specifico, della necessità di una nuova tipologia di multilateralismo che tenga conto della nuova realtà del XXI secolo; una realtà che vede in primo piano le società transnazionali.

*Parole chiave:* cambiamento organizzativo, interdipendenza tra Paesi, commercio internazionale, IDE, società transnazionali, società transnazionali digitali, multilateralismo, ambiente, pandemia da Covid-19 ed economia.

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## 1. BACKGROUND

This paper originates from the publication of the 2020 UNCTAD *Trade and Development Report. From Global Pandemic to Prosperity for All Avoiding Another Lost Decade*, and a related webinar to discuss the report. The webinar was organised jointly by the Italian National Council for Economics and Labour (CNEL) and the United Nations Conference on Trade and Development (UNCTAD)<sup>1</sup>.

Following an Introduction, the report is structured in four parts dealing with: “Global Demand and Growth Dilemmas after Covid-19”; “Recovering Better: The Inequality

Challenge in a Fractured Economy”; “Recovering Better: Expanding the Space for Fiscal Policy”; and “Recovering Better: Rethinking Multilateralism”.

The report is very thorough in its analysis, and the related policy recommendations are well-supported by the empirics. The following elements emerge as key elements:

- the huge impact of Covid-19 on the current performance of the world economy, and the restructuring that will inevitably follow;
- the roots of the present economic problems go well beyond the effects of Covid-19, and must be sought also in: *a)* the disastrous austerity policies that followed the financial crisis of 2007-2008; *b)* the increased inequality of the last few decades made worse by the austerity policies; and *c)* the economic, social, and environmental challenges posed by global warming;
- the authors come out clearly in favour of fiscal expansion, and suggest ways in which the space for such a strategy could be widened;
- they see the environmental and health challenges as investment and restructuring opportunities;
- at strategic and policy level, they see a need to rethink multilateralism to make it work in the post-Covid-19 era.

The report is refreshing in: *a)* its critical analysis of the austerity policies following the 2008 financial crisis as one of the main roots for the present predicaments; *b)* linking together the major challenges to today’s economy and society: Covid-19, the environment, and inequality; and *c)* looking at these challenges also as opportunities for structural change.

The current paper considers and develops two issues that emerge from the report: organisational change/innovation; and interdependence between countries/regions. They are dealt with in Sections 2 and 3, respectively. Section 4 discusses the main agents of interconnections between countries in the present world economy. Section 5 discusses multilateralism in an era dominated by the transnational corporations (TNCs). The last section summarises and concludes.

## 2. INVESTMENT IN ORGANISATIONAL CHANGE AND INNOVATION

The report supports fiscal expansion, specifically via investment. The environmental challenges as well as those posed by Covid-19 give us opportunities for large-scale

<sup>1</sup> Two main papers on the report were presented by UNCTAD researchers directly involved in it: *Trends and Challenges in the Global Economy* by Alex Izurieta and *Recovering Better: From Global Pandemic to Prosperity for All* by Jeronim Capaldo. The papers were discussed by Grazia Ietto Gillies and by Andrew Watt, Hans Böckler Foundation. Concluding remarks by Annamaria Simonazzi, Sapienza University of Rome. Orsola Costantini, UNCTAD, moderated the debate.

investment respectively in physical, digital, and human infrastructure, particularly in the health and care industries. Direct or indirect state intervention will be necessary in most of these investments not least because the returns on them are long-term and social in nature.

These investments are made particularly pressing by the destructive consequences of austerity, which have left public-sector infrastructure in a perilous state: from bridges to flood defences – particularly urgent in the United Kingdom – to school roofs. Covid-19 has laid bare basic deficiencies in the physical infrastructure of education in most European countries; the lack of access to computers – widely reported in the media – is only one of many. Other deficiencies have received less attention.

My grandchildren attend a London school built in Victorian times, and the building, attractive though it is, shows its age. Nonetheless, the Victorians knew that children need large open spaces for their recreation. All schools – state and private ones – have courtyards, and many have sports fields. Nine-year-old Daniel looked upset and horrified when I told him that some of his (second-degree) Italian cousins were spending their school recreation time inside the classroom – and with protective masks on! – for lack of school playgrounds. And this in schools built well after Victorian times. So, in many parts of Europe, the problem may not be just fixing the roofs and equipping students with laptops; the whole physical infrastructure and its suitability for XXI-century education must be reconsidered.

Covid-19 has also laid bare the problem of poor and overcrowded public transport in many parts of Europe. It fails to secure the timely arrival for work of millions of workers, it contributes to pollution via the use of private motors, and last – but not least – it has recently been shown to contribute to the spread of the virus.

There is also a pressing requirement for other types of investment and, specifically, for those in digital technologies and more generally in Industry 4.0<sup>2</sup> technologies such as: the Internet of Things (IoT); artificial intelligence (AI); robotics; big data and analytics; and additive manufacturing (Strange and Zucchella, 2017). The new technologies also should be seen as an opportunity more than a challenge. They are the type of transformative investments likely to bring productivity increases. They do, nonetheless, pose a variety of challenges, particularly, the inevitable changes in the sectoral structure and related disruptions as old industries disappear, and new ones emerge. There is, moreover, another big challenge often neglected by economists and which, indeed, the report does not discuss.

To illustrate this point, I am going to refer to a sentence by the Nobel laureate American economist Robert Solow. In his 1987 article for the *New York Times Book Review*, he writes: “You can see the computer age everywhere but in the productivity statistics” (p. 36). There was much discussion of this issue in the years following Solow’s statement. One work – Gordon (2000) – was pessimistic about the potential for productivity growth related to information and communication technologies (ICTs). However, many authors showed that, within a few years, there was a significant relationship between the use of ICTs and productivity growth (Tomlinson, 2001; Oliner and Sichel, 2000). The latter work pointed out a discrepancy between short and long-term effects of ICTs, and several authors concentrated on the reasons for such discrepancy between short and long-term performance. Organisational and social reasons were seen as at the basis of it. Dalum *et al.* (1999) point out that ICTs require profound changes in society, and therefore time is needed before the full impact of the new technologies can be felt. Brynjolfsson and Hitt (2000) concentrate on the organisation of the labour process rather than on society at

<sup>2</sup> See Schwab (2016).

large. They stress the relevance of organisational changes and of workforce training for the productivity effects to be realised. These changes take time, and thus explain the lag in productivity, and the discrepancy between short and long-term performance.

These discussions about productivity performance assume – indirectly – that the system is working at full capacity both in the short and in the long run. However, we know that this has not been the case during the austerity years; nor is it during the current pandemic when we have both a supply and a demand problem in the economy. The level of productivity is affected by the level of capacity utilisation, thus policies that stimulate demand – including policies leading to less inequality – will also lead to increase in productivity.<sup>3</sup>

The technological changes ahead of us relate to the development of Industry 4.0 technologies, environment-friendly infrastructures, and health and care infrastructures, and they all require also considerable investment in organisational changes. The following recent case, still ongoing in the United Kingdom, illustrates how organisational problems may be holding back efficiency in times of Covid-19. It appears that, since the summer 2020, the UK government has invested very considerably in testing capacity and, indeed, that its capacity is now very high by international standard. However, the effects in terms of number of tests done, speed of results and of communication to relevant people, and follow up with tracking and tracing is very disappointing. The media and various politicians and epidemiologists seem to agree that the problem may lie with the organisation of the test, track, and trace system: from the location of testing centres in relation to foci of infection to the time taken for testing and communicating the results, to problems of communication between the centralised system and the peripheral health centres, to incentives for people who had been in contact with an infected person to isolate themselves.

The organisation and delivery of complex projects such as the test, track, and trace system bring with them a variety of sub-projects and tasks that need to be linked together. Various organisational decisions are required, specifically in the following areas.

- What parts – if any – of the service can be externalised, i.e. produced outside the institution, be it private or public.
- Public vs. private balance for the delivery of the services or part of it; too often the decisions are taken on political/ideological grounds rather than led by efficiency and strategic thinking.
- Geographic scope: what elements can/should be decentralised to regions or towns?
- How to integrate the technological side with the human resources side? The expertise, motivation, and training of the workforce is essential to success in the various tasks, some of which involve direct communication with the public.
- Cultural dimensions ranging from the language of communication, to knowledge of practices in other cultures or countries. I have an amusing example in this respect. I hold a double citizenship – Italian and British – and am a UK resident. Years ago I had to fill, online, a form required by a top Italian public institution. Among the requests was one, for my address of residence. When it came to my postcode, I filled in the standard UK a mixture of letters and numbers. The system did not accept it; it was programmed for postcodes in digits only – the Italian system – though the form was for foreign residents! I could not fill the form online.

<sup>3</sup> I am grateful to Orsola Costantini and Alex Izurieta for – independently – pointing out to me the link between productivity and capacity utilization, dealt with in the UNCTAD report.

– The task of developing incentives to make the system work – i.e. for tracked people to isolate in the case of Covid-19 – is a more directly political one.

The extent to which directives should be the prerogative and responsibility of international agencies such as the World Health Organization (WHO) in the case of a pandemic is something beyond the remit of single governments. Yet, the power – or lack of it – of the WHO may be essential to success or not at global level.

To conclude, I feel that, together with the planning of physical investment particularly in new technologies, we must also plan for investing in organisational change including deep, relevant training of the workforce. On the latter issue, it is worth noting that, in times of great challenges like the present one, we need also to work with – not against – the workforce, involve it in the decisions, and carry it along the proposed changes.<sup>4</sup>

### 3. INTERCONNECTIONS AND INTERDEPENDENCE

The report cites the words of Franklin D. Roosevelt on the issue of interconnections. In his opening speech for the start of the Bretton Woods Conference on 29 June 1944, President Roosevelt tells the members of the United Nations Monetary and Financial Conference that:

Economic diseases are highly communicable. It follows, therefore, that the economic health of every country is a proper matter of concern to all its neighbors, near and distant. Only through a dynamic and a soundly expanding world economy can the living standards of individual nations be advanced to levels which will permit a full realization of our hopes for the future.<sup>5</sup>

The second part of this statement can apply today as well as in 1944. Then, the living standards in many countries needed raising after the devastating effects of the war years. In our days, they need increasing after the cruel sacrifices of the austerity years and of the Covid-19 pandemic.

Let us now consider the first part of Roosevelt's statement, where his concern is mainly with economic interdependence between countries linked to interconnections. By the latter I mean the web of exchanges between residents of countries that establishes an economic and social structure making countries dependent on each other to a higher or lesser degree. In the last 75 years, interdependence has become deeper and wider. Deeper in terms of the relative scale of exchanges; wider because the range of economic exchanges has increased from just or mainly trade<sup>6</sup> to foreign direct investment (FDI), to additional types of portfolio investment, to movement of people across countries (for migration, business, tourism), to linkages and cooperation related to research or security or the design of production processes.

Regarding the latter, we note that the widening of interconnections has, in fact, taken a specific form in the last few decades: the development and growth of global value chains (GVCs) in which final products are the result of processing in various countries of different

<sup>4</sup> This point makes it particularly relevant that the discussion of the UNCTAD report should have been organised within CNEL, whose essence includes bringing together the various social parts.

<sup>5</sup> Available at: [https://www.cvce.eu/content/publication/2003/12/12/051f8720-94b9-4aec-991b-901dd926a578/publishable\\_en.pdf](https://www.cvce.eu/content/publication/2003/12/12/051f8720-94b9-4aec-991b-901dd926a578/publishable_en.pdf). The first part of this statement is reproduced in UNCTAD (2020a, p. 113).

<sup>6</sup> Before WWII, there were also considerable amounts of cross-border portfolio investment in the form of loans from foreign private institutions or governments.

stages of the production process (UNCTAD, 2013; Gereffi and Fernandez-Stark, 2016; Humphrey, 2019; Ponte *et al.*, 2019; Sinkovics and Sinkovics, 2019). This means that, to arrive at a final product, we need to involve in the process firms, institutions, and labour from various countries. GVCs are now developed for many products from material goods to services. In the first case, the processed component is moved to other countries for further processing, thus increasing exports and imports. In the case of many services, the movement of products, at whatever stage of the processing, is done on the internet. Changes in the technology of transportation, communication, and transmission have been enormous since Roosevelt started that famous conference: from increase in air traffic to digital communication and transmission of files and documents. It all leads to countries and their people being brought more closely together.

The ones just mentioned are interdependencies between countries within the economic sphere generated from economic activities. However, the “communicability” – to use Roosevelt’s expression – or transmissibility that leads to interdependence is not a characteristic of economics only. Other spheres of activity increase the interdependence between people, countries, and regions of the world. They have also enormous effects on the economy, and contribute further to economic interdependence. We are in the middle of big events in terms of these non-directly economic activities: Covid-19 and environmental events.

Infectious diseases and pandemics are nothing new in the history of mankind: from plagues to various types of influenza, to cholera, to typhus. There are, of course, profound medical differences between these, and there are also differences with respect to their impact on the economy. The Covid-19 pandemic differs from preceding ones not just in the level of medical knowledge about it but also in relation to the following. The rate and speed of transmission from geography to geography has been very fast because of the scale and speed of travel between and within countries. The economic impact of the disease derives from the disablement of sick workers. It also derives from the preventive policy measures aimed at distancing people, be it in transport or workplace or places of leisure and consumption such as restaurants, bars, pubs.

The link of Covid-19 to environmental issues has been highlighted in the report in terms of its inception, on which we read: “[T]he Covid-19 crisis [...] has its roots, in part, in an extractive growth model that has extended to the way we manufacture food, privileging cost cutting and short term returns at the expense of long-term investments and a commitment to the needs of future generations” (p. 113). The linkages to environmental issues are also in terms of its different rate of spread in very densely populated areas compared with more rural countryside areas. We also note that inequality – one of the problems clearly identified in the report – plays a role in the spread and fatalities from Covid-19: the communities worse hit by the pandemic in terms of rate of infection and deaths are those at the bottom of the income and wealth scale. It could be argued that there is nothing new in Covid-19; the poorer communities have always suffered worse health problems in general. Yes, but in the case of Covid-19, other elements compound and add to this general trend: poor housing leads to overcrowding and thus difficulties in distancing from other people; the jobs of people in poorer communities are often such that distancing or working from home is difficult or almost impossible such as in transport or hospitality.

Human-generated environmental problems have been with us ever since the industrial revolution. The last few decades have highlighted a specific type of environmental problem: one deriving from global warming of the planet linked to the emission of CO<sub>2</sub>



gas. The linkages to specific industries – such as energy, aviation, or food production – and to lifestyles are well-known. What I would like to mention here is the following: environmental problems have considerable effects on health;<sup>7</sup> they have considerable effects on the physical environment with increasing episodes of forest fires as well as floods affecting human life. Moreover, all these environmental problems have effects on economies particularly through their impact on buildings, housing, land, and general infrastructure.

The interdependence of countries in the case of Covid-19 is starkly clear: no scientist believes that the virus can be controlled unless it is controlled everywhere in the world. This raises immediate issues for the cost of vaccines now gradually becoming available and rolled out as I write. But so is the interdependence of countries on environmental issues. A single country moving out of polluting energy production would help; but only if all or most countries of the world follow the green route, can the problem be tackled. Moreover, polluting behaviour in one country affects most other countries of the world including the non-polluting ones.

To summarise, the interdependence highlighted by Roosevelt for the economic area, should, in our age, be extended also to the environmental and to the health areas. The latter two areas produce strong economic effects. Moreover, the three areas together – economic, environmental, and health – strengthen the interdependence between countries and regions to levels never experienced before.

I would like to finish this section by mentioning the development of a socio-psychological type of interdependence. One impact of technological development is the fact that we all have instant access to news from around the world. Seeing images of floods, fires, or children distressed or shown dead on beaches affects us all. We are in a kind of bubble of psychological interdependence. Much as many of us would like to, we cannot just shrug off problems in faraway countries: the faraway ones are just a click away on our telephone, laptop, or TV screen.

#### 4. AGENTS OF INTERCONNECTION AND INTERDEPENDENCE

There is another big difference between the economic interconnections we are experiencing today, and the one Roosevelt was talking about. The difference lies in the agent most responsible for the interconnections then and now. Before WWII, the economic interconnection was mainly through trade. There was also a good deal of portfolio investment and some FDI, largely in developing countries and in the material resources sectors. At the start of WWI, the percentage of stock of inward FDI into developing countries was 62.8%, rising to 65.7% by 1938. After WWII, the sectoral focus of FDI moved, in relative terms, from resources to manufacturing and, in later years, to services. This led to a change in both the sectoral and geographical structure. The percentage of stock of inward FDI in developing countries moved from 32.3% in 1960 to 26% in 1990, increasing thereafter to reach 31% in 2010 and in 2019.<sup>8</sup> The following structural changes account for these figures: *a*) growth of FDI in manufacturing directed to China and other major developing countries; *b*) advances in technology and cost of transportation; and *c*)

<sup>7</sup> As I revise this work, a coroner in London has, for the first time in history, ruled that the death of a little girl was partly caused by air pollution.

<sup>8</sup> Dunning (1983, Table 5.2) for 1914 and 1938; UNCTAD (2002, Annex Table B3, pp. 310-313) for 1990; and UNCTAD (2020b, Annex, Table 2, pp. 242-245) for 2010 and 2019.

technological changes, specifically, digitalisation underpinning the design of production processes. These changes made possible the division into components, and this led to strategies of location of production of different components in different countries according to the level of skills required. The GVCs were gradually born.

The end results of these changes were: *i*) involvement in manufacturing and also services production by both developed and developing countries; *ii*) increase in international trade as the components were moved from country to country for further processing; and *iii*) increase in the role and activities of transnational companies.

International trade was key to interdependence in Roosevelt's time, and it is still very relevant in generating interdependence in our days. However, in our age, trade is largely the responsibility of TNCs: 80% of world trade is initiated by transnational companies; of this trade, one third is intra-firm, i.e. trade that is across countries' frontiers but internal to a company (UNCTAD, 2013).

Nonetheless, trade is not the defining characteristic of the TNC. The transnational is defined as a company that operates directly in more than one country. To operate directly, it sets up business via FDI.<sup>9</sup> The defining characteristic of the TNC is therefore seen as embedded in FDI. For example, Mira Wilkins (2001, p. 6) considers FDI to be the *essential* activity for a firm to be defined as transnational. Nonetheless, TNCs are also responsible for large parts of portfolio investment; for a variety of partnership – contractual and non – from franchises to joint ventures across countries, some of which involve exchange of equity and some do not. In effect, we can say that there is one main key agent responsible for economic interconnections and interdependencies in modern economies, and it is the TNC.

Looked at it from a different point of view, we see that the transnational companies are the main agents of international integration: they allow consumers all over the world to have – potentially – access to the same products; they integrate workers from many countries in the labour process via the GVCs; they integrate large business from one country with smaller ones in a variety of countries – including the home country of the TNC – via a variety of contractual arrangements. Through all these webs of connections, they integrate countries and regions of the world.

TNCs are also closely involved in the two areas of interdependence we have identified above: Covid-19 and environmental issues. Regarding the former, TNCs are involved totally, substantially, or partly in: the delivery of healthcare in most countries; health insurance; production of health care equipment; and the pharmaceutical industries. Regarding environmental issues, the TNCs are the main agent of pollution via the oil industry, the motor and aviation industries, and the food industry. It should, nonetheless, be noted that many TNCs are now taking the lead in the conversion towards a green economy and in the production of green energy and green transportation.

Yet, elsewhere, I have written of TNCs as agents of fragmentation (Ietto-Gillies, 2019, Chapter 15; Balcet and Ietto-Gillies, 2020). In what sense can they be seen as agents of fragmentation? Because they develop strategies of fragmentation towards the production process, labour, suppliers, and governments of various countries in the following ways. Labour working for the same company in different countries finds itself in a weaker bargaining position – compared with a hypothetical situation in which the investment and

<sup>9</sup> The development of digital TNCs and of companies operating abroad via non-equity modalities (NEMs) of internationalisation (such as McDonald's or Uber) is raising doubts about the suitability of the definition of TNC in terms of FDI (Ietto-Gillies, 2022/2023).



related employment were all generated in the home country – because labour and its trade unions (TUs) have not – or not yet – been able to organise across countries and to bargain together. There are many obstacles to such cooperation ranging from different historical and cultural roots in the development of TUs in various countries, to nationalistic ideologies that lower the level of solidarity towards the foreigner seen as “other”.

There are signs of change in the air, and we have witnessed several attempts at labour organisation and resistance across borders or across industries (Ietto-Gillies, 2017; “The Guardian”, 2018a, 2018b and 2018c). There is, indeed, a growing literature on the sociology of labour and TUs that touches on these issues. Pulignano (2009) and Whittall *et al.* (2009) focus on the role of digital technologies in establishing networks – across countries and/or across industries – of their TUs while the forging of alliances with other movements is tackled by Doellgast (2008). Annear *et al.* (2006) consider determinants of transnational labour solidarity. Nonetheless, we are still a long way away from international labour organisation.

TNCs have many dealings with governments of their own country and of host countries. In this case, the bargaining is about: tax concessions; subsidies and other incentives to investment; and special deals regarding labour and TU legislation. In these dealings, the TNC can always threaten to take its business somewhere else, and politicians eager to show that they are trusted by business tend to cave in. Similarly, a large TNC bargaining with a variety of suppliers – many of whom are businesses smaller than the main party to the contract – finds itself in a powerful position as it can always threaten to remove the contract from the incumbent. Having direct businesses in other countries adds weight to threats of relocation, whether they are towards labour or suppliers or governments. The Fiat company used the threat of relocation on a couple of occasions in bargaining with Italian TUs. In the early 1990s, the CEO Cesare Romiti threatened relocation of the Melfi establishment to Portugal; two decades later, the CEO Sergio Marchionne threatened to locate investment in Poland rather than in Pomigliano, southern Italy (Balcet and Ietto-Gillies, 2020, p. 124). Other companies are known to have indulged in similar behaviour. Moreover, managers can just cite successful threats by other companies to achieve their bargaining aims (Galgoczi *et al.*, 2007, p. 23).

The overall conclusion is that the strategies of TNCs fragment labour working for them; they also fragment suppliers and nation states who are pitted one against the other for the attraction of inward FDI. Moreover, their strategies of designing and orchestrating GVCs fragment the labour process and thus labour working at the various stages of the process often across different countries/regions. Covid-19 has made these interconnections more problematic, and exposed the weaknesses of individual countries relying on supplies of components or final products from abroad as these became more difficult and unreliable. On this point, we read in the report of:

[...] growing concern that the disruption of GVCs from Covid-19 may persist beyond the crisis. Calls for a reshoring of critical medical and food products to take back control of strategic production processes [...] combined with observations that Covid-19 might include a shortening of supply chains and a more general reshoring of production to developed countries [...] In fact, such efforts were already underway following the global trade collapse in 2009 that – combined with the floods in Thailand and the earthquake in Japan, both in 2011 – highlighted the riskiness and fragility of supply chains focused on cost effectiveness and just-in-time delivery [...] Increasing labour costs in China, new digital technologies, and concerns over environmental sustainability have only reinforced these concerns (pp. 121-2).

Yet, TNCs do integrate as well. Countries become more integrated and interdependent because of the activities of TNCs. Thus, TNCs are in the dialectical position of being both agents of integration, and agents of fragmentation in modern economies.

## 5. A NEW MULTILATERALISM?

The report notes that, while interdependence between countries has increased, the degree of multilateral cooperation between them has decreased in the last few decades.

The modern history of multilateralism may be traced back to the post-WWI period, when the League of Nations and the International Labour Organization (ILO) were founded. They built up massive amounts of research and expertise but their work and achievements were greatly challenged by events on the ground from the influenza pandemic to the refugee crises, to economic instability and the depression. The political challenges of fascism and nazism became even more menacing. WWII led to stronger ties between western countries and to the emergence and consolidation of the new multilateralism under the hegemony of the USA.

The decades following the Bretton Woods agreement have seen an unprecedented degree of collaboration between countries in the western sphere and under the leadership of the USA, the country that took the lead in the economic recovery of the West via the Marshall Plan. Occasional departures from these tacit arrangements – such as the Suez Canal adventure by the United Kingdom and France – were soon put right. The collaboration extended from the economic to the security and military spheres. The Cold War excluded the Soviet Union and China from these arrangements.

As the post-WWII boom started flattening out, new markets and opportunities were required to revive capitalism. Nixon's friendly approach to China came to the rescue. The dollar convertibility crisis challenged collaboration among western countries. The petrol crisis of the 1970s created the opportunity to extend multilateralism to new geographies and political contexts. International collaboration and hegemonic multilateralism were revived during the early decades of neo-liberalism: the Thatcher and Reagan's one and the following decade. It was a multilateralism with increasing power and role of TNCs and, in particular, of those in the financial sector.

In Europe, the establishment of the European Common Market and later of the European Union (EU) set the scene for stronger ties than multilateralism. A common market, a common external tariff, and later a common currency regime created a new, very powerful bloc threatening the old world order. Much progress was made in the EU in the economic sphere, and much more is possible and necessary. The interconnection of its countries was strengthened by collaboration in research, education, and business, as well as by the movement of labour, which took with them a variety of cultures, knowledge, and skills, as well as labour power. However, the political and social aspects of integration were neglected under the soon-to-become pervasive neoliberal ideology. The austerity policies moved citizens of many European countries away from the ideas and aspirations of a united Europe and into nationalistic retrenchments. The interest of international finance prevailed over such aspirations.

Recent decades have seen a move from multilateralism towards bilateral agreements with further undermining of international agencies and unions from the United Nations (UN) to the World Trade Organization (WTO), to the ILO, to the WHO, to the North

American Free Trade Agreement (NAFTA), and to the EU. We have also seen the exit from the EU by the United Kingdom, a process still undergoing and deeply worrying in its short and long-term consequences for the United Kingdom and Europe. Equally worrying are the other secessionist movements in other parts of Europe from Spain to Italy, to the United Kingdom. The Scottish nationalists are gaining momentum as their wish to remain within the EU was ignored by the UK government, following the ill-conceived and poorly designed referendum on EU membership.

How does this weakening of multilateral collaboration sit consistently with the increased economic integration we discussed in Section 3? If governments do not take the multilateral collaboration lead that underpins the economic ties on the ground, who does? In Section 4, we discussed the role of TNCs as integrators across countries. It seems that changes in collaboration at the level of international politics have gone hand in hand with the increase in the role and influence of transnational companies on the world stage. Or, to put it differently, we seem to have now a world in which the lead in interconnections and integration across countries is taken by large transnational companies – with particular relevance of those in the financial sector –, and the politics at international level follow and support this lead and state of affairs; or rather, home countries of the TNCs take responsibility for defending their interest against policies by other countries.

The recent case regarding US digital and tech TNCs<sup>10</sup> such as Apple, Alphabet – owner of Google –, and Facebook is a very interesting one. The EU and countries within it are considering a revenue tax on digital TNCs. This has been spurred by the fact that the digital companies with business in many countries of the world can easily avoid large amounts of company taxation by shifting their profits to countries with a low tax rate. It is known that many TNCs apply these strategies for lowering their tax liability; however, the digital ones have an easier job of it as it is more difficult to ascertain where the profits were made. Indeed, in the world of production by digital TNCs, it is often difficult to know where a product is produced: where are the products of Facebook or Tweeter or Google produced? The issue is further complicated by the fact that most of these companies draw their revenue from advertising and not from the sale of their service products.

The EU and the Organisation for Economic Co-operation and Development (OECD) are studying the possibility of applying a tax on revenue more certain as to its origin than profits. France has approved legislation for a tax of 3% on revenue but has not applied it yet, awaiting the results of the OECD and EU background work (“The Guardian”, 2019). Nonetheless, the then US President immediately announced retaliation against imports of French products in case President Macron went ahead with the plan for a tax on revenue. In 2008, the then UK Chancellor of the Exchequer, in his Budget Statement, made a plan for a “2% charge on the UK revenues of specific digital business models [...]” (“The Guardian”, 2018d). However, this part of the statement was never turned into law.

The digital companies are not the only TNCs indulging in tax-minimisation strategies. Most of them do it; governments are well aware of such behaviour and, at times, close one – or both – eye(s). It is an irony that, though a Conservative government wanted to appear tough on laws governing fiscal revenues, they never tackled or discussed the

<sup>10</sup> The digital companies include: internet platforms, digital solutions for services such as electronic payments and cloud players, e-commerce companies, and those that can deliver digital content through the internet or TV channels. The tech TNCs comprise companies that sell hardware and software including the telecoms (UNCTAD, 2017, p. 165).

major source of distortion and underpayment of taxes: the existence – supported by the British government – of tax havens within its own jurisdictions and territories. UNCTAD (2015, p. 188) reports that: “In 2012, the British Virgin Islands were the fifth largest FDI recipient globally with inflows of \$72 billion, higher than those of the United Kingdom (\$40 billion), which has an economy almost 3,000 times larger. Similarly, outflows from the Virgin Islands, at \$64 billion were disproportionately high compared with the size of the economy.” It also reports other developed countries – such as Luxemburg and the Netherlands – as hubs for transition of FDI linked to minimisation of tax liabilities.

The transnational companies via their FDI, via the NEMs of business collaboration, via control over technologies and markets and the GVCs affect labour markets and relationships between large and smaller firms all over the world. The movements of funds by manufacturing, services, or financial TNCs affect the monetary economy and the business cycles. The revenue of many governments and thus the services they can provide to their citizens are affected by the strategies of tax minimisation of companies operating in many countries. The location of headquarters, and the pricing of components to be transported from country to country under GVCs strategies and of services offered across units of the TNC located in different countries can be planned, and prices set,<sup>11</sup> according to the fiscal regime in each country in which the TNC operates in such a way as to minimise its tax liability worldwide.

The power of TNCs derives from their market position – linked to size, monopolistic positions, and legal protection for strict intellectual property rights (IPRs) – as well as from the technology used. As we saw in Section 4, power is exercised towards – and affects – labour, suppliers, and national/regional governments. This means that these three sets of agents may have to develop countervailing power in bargaining with TNCs. For labour, the main issue is not only how to regain TU power at local and national level but also how to organise internationally; not an easy task given the current nationalistic ideologies that are being promoted in many countries. There is, potentially, a strong role to be played on this issue by the ILO. Organising and strengthening suppliers’ chains may also be very challenging as they are hampered by size as well as by geographical dispersion into a variety of developing and developed countries.

Are the two trends just discussed – decrease in multilateralism and increase in the power of TNCs – related? Are they compatible? Section 4 argues that TNCs are at the same time agents of coordination and interaction across countries, and agents of fragmentation. They benefit from divergence in regulation across nation states or regions of the same country regarding labour and social security, taxation, and environmental standards. A lower level of multilateralism, i.e. of agreement between many countries on their economic, social, and environmental policies, is to the TNCs’ advantage provided the home country government intervenes to defend them when their interests are threatened.

At the economic and social levels, the increase in interdependencies in the public health, environmental, and economic spheres in themselves may call for a different type of multilateralism, one in which non-western countries must be positively involved. More important still is the fact that, as noted in Section 4, the interconnections are now, largely, the outcome of activities, strategies, and interests of large TNCs. The game has changed:

<sup>11</sup> In principle, transfer prices should be set at arm’s length; however, for many components and particular services, it is difficult to find a close market equivalent. OECD (2010) sets guidelines for companies and tax inspectors on this issue. See also Ietto-Gillies (2019, Chapter 23) and Eden (2001, 2014 and 2019).

as well as considering the role of nation states – and, in some cases, groups of them as in the EU – on the world stage, we have now to take account of the role of this big player in shaping the geography, organisational type, and depths of interconnections.

A new multilateralism may also have to face up to the technological challenges to society and politics posed by digitalisation via the activities of digital companies. For a start, the social media TNCs such as Facebook raise wider issues than the governments' revenue from taxation. They have been accused of interference with the democratic process of various countries. Thus their regulation may be at the very heart of our democracies. Moreover, they are transnational in a much wider sense than other TNCs. We mention that, for many digital companies, it is difficult to work out where they produce their services. The products, processes, and indeed the companies as a whole are truly global. In such a situation, the residence of a company becomes even more problematic and controversial than for TNCs in general, those that usually engage in location-bound products and services. Might we dare to think of social media companies as having "world" residence under the supervision and responsibility of the UN? However, it would have to be a restructured and fully rethought UN reflecting the real world today and not the one at the end of WWII.

## 6. SUMMARY AND CONCLUSIONS

The paper takes the lead from the publication of the UNCTAD 2020 report and from a webinar organised to discuss its content and policy implications. It reflects on two issues directly or indirectly connected with the report: *a*) the need to invest in organisational change alongside physical and digital infrastructure investment; and *b*) the increased interdependence between countries since WWII. They arise from increased interconnections due to economic exchanges as well as to environmental problems caused by climate change and health problems linked to closer contacts between peoples of the world, as in the case of the current Covid-19 pandemic. The multiplying effects of interaction between these three areas of interdependence – economic, environmental, and health – are discussed. Section 4 considers the key role of transnational corporations in the interconnections between countries. It highlights their role in integration as well as in fragmentation, and identifies the latter as taking place towards labour, suppliers, and governments, as well as the production process.

In Section 5, the paper discusses multilateralism and specifically the need for a new type of multilateralism to take on board the new reality of the XXI century. This reality encompasses not just increase in countries' interconnections and interdependence but also the fact that they are shaped by the role of a most significant player: the transnational corporations. It calls for a type of multilateralism that is not only more inclusive in terms of countries but that also: *a*) acknowledges the role of TNCs, and aims – within the framework of support for transnational economic activities – to develop countervailing power by labour, suppliers, and governments; and *b*) reflects the new reality of true globality of products and processes regarding the digital companies.

The last point leads – at the end of Section 5 – to what can be seen as utopian recommendations. They are certainly not utopian technologically or in terms of economic potential. They may be in terms of political aims, which appear too ambitious against the current background. I accept this criticism and I bring into this discussion my old teacher



and supervisor Bruno de Finetti,<sup>12</sup> who thought that utopian aspirations in the economic and political fields were necessary in order to achieve change. He writes explicitly about having utopian, though realisable, aspiration in the economic, social, and political spheres:

Why invoke utopia, rely on utopia, defend utopia? [...] Yes, a utopia can be totally unrealizable and useless, but [...] it requires prudence before we reject something as unrealizable. All progress in science shows this *ad abundantiam*, yet nobody is open, unprejudiced, trustful enough to consider possible things that became obvious to him in the decade to follow (not to mention centuries to follow). Maybe not even Verne took seriously the description of things destined to become real a few decades later.

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<sup>12</sup> "Perché l'utopia", in *Introduzione al Corso CIME (Centro Internazionale Matematica ed Economia)* of 1971, reprinted in G. Amari and F. de Finetti (2015), *Bruno de Finetti. Un matematico tra Utopia e Riformismo*, Roma, Ediesse, pp. 39-41 (translation by Grazia Ietto Gillies).



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