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Supranational governance and corporate strategy: the emerging role of the World Trade Organization

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Abstract

The subsidization of firms by their governments is one of the most controversial issues in international trade. As such, international disciplines on subsidy have been developed under the auspices of the World Trade Organization (WTO). However, many states continue to regard state aid as a vital and entirely legitimate form of government intervention in the economy. Indeed, they cite economic studies on spillovers, externalities and appropriability problems to make their case. Writers such as Porter, Doz and Rugman have illustrated the importance of the domestic economy to international operations. But how are WTO disciplines affecting firms? We develop a case study of the commercial rivalry between two aircraft manufacturers, Bombardier and Embraer, to demonstrate the growing importance of supranational regulation to corporate strategy. © 2001 Elsevier Science Ltd. All rights reserved.

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1. Introduction

The events in Seattle during December 1999, when the WTO's ministerial conference ended in failure, reminded business that international commerce does not occur in a vacuum: rather it is conducted between a myriad of state actors, international

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organizations and societal groups such as environmental, labour and human rights groups. The interaction of business and its environment has long been a subject of scholarly enquiry. Much of the early interest was in foreign direct investment: an interest that remains salient today (Graham, 1997). Recently, the interaction of business and civil society has been examined (Maxwell, Rothenberg, Briscoe, & Marcus, 1997). Firms have recognized that non-state actors, such as non-governmental organizations like Greenpeace, can have a profound effect on their operations. However, relatively little of this work concerns the growth and development of international organizations like the WTO. Instead, where firm — government relations are concerned, much of the focus remains on national governments in their capacity as home or hosts for foreign direct investment. Sanyal and Guvenli (2000) note that "more and more governments" have accepted liberal economic policies, yet they fail to recognize that this liberalism has an institutional manifestation in the WTO. Rugman and Verbeke (1998) note that the WTO may become increasingly important, but regard the international regulation of investment policies as a more pressing matter on the regulatory agenda. In her review of the government — business relations literature, Getz (1997) argues that as international business expands, it is reasonable to expect that international level regulation will become more salient for scholars and practitioners. However, she does not attempt to develop either theoretical frameworks or case studies to pursue this point. Dunning (1997a), similarly, raises the potential importance of supranational or international regulation in his edited work on business government relations. He notes that the expansion of international commercial activity challenges states to reconsider their governance of economic affairs. Dunning also stops well short of examining the actual interaction of business and international institutions like the WTO. The management literature, in brief, seems to suggest that there is "something" important about international organizations like the WTO, but no agreement on how to proceed.

This may be due to the relative novelty of the WTO: it has only existed formally since 1995. However, another reason may lie in the misplaced belief that, as an international organization, the WTO has no effect on firm strategy or operations. Rather, the primary research focus ought to be on national regulatory regimes and their influence on firms seeking to locate there. This article does not argue that the WTO is the only important environmental variable for international business, nor is it the most powerful (however one determines relative power in the international system). We do argue, however, that the organization's potential impact on the conduct of international commerce is understudied. The business and management literature has generally not grappled with the details of WTO decisions — in contrast to the legal literature — but has concentrated on the WTO's place within the international regulatory system (Rugman, 2000). A proper assessment of the WTO's influence — or lack of — on international business can be gained only by a careful examination of actual cases. The case developed in this paper is intended merely to add some empirical leverage to the argument that the WTO matters in international business strategy; it is not, nor cannot, be conclusive in its findings. Significant further work needs to be done in this area. Our aim is to illustrate how WTO decisions may affect firms through shaping national-level industrial and technology