The Atomizers

Multinational Firms and the Fragmentation of Global Economic Governance

Calvin Thrall
Assistant Professor
Department of Political Science
Columbia University

"To deal with the problems of international exchange and of international investment is beyond the capacity of any one country, or of any two or three countries. These are multilateral problems, to be solved only by multilateral cooperation."

- Henry Morgenthau, Jr., U.S. Secretary of the Treasury (1944)

"We're going to make trade deals, but we're going to do one-on-one... and if they misbehave, we terminate the deal. And then they'll come back and we'll make a better deal. None of these big quagmire deals that are a disaster."

- Donald J. Trump, 45th President of the U.S. (2017)

brief description

In the first decades following World War II, the world's industrial powers believed that the global economy should be regulated by institutions that are inclusive, cooperative, and multilateral. In the 21st century, however, most global economic governance is conducted through *ad hoc* bilateral agreements; this piecemeal approach reduces aggregate welfare, promotes inequality both across and within states, and enables economic nationalism.

The Atomizers provides a new explanation for the decline of multilateralism: multinational firms, a minor economic force in the middle of the 20th century but a dominant one at its end, prefer bilateral economic agreements over multilateral ones because the former provide firms with greater benefits relative to their competitors. As firms expand abroad into new host markets, they form new interest groups—which I call the *bilateral lobbies*—to petition their home government for greater bilateral integration.

Using a wide range of novel data sources—including bilateral chambers of commerce, text data from oral history interviews with thousands of U.S. diplomats, declassified diplomatic cables, and subnational trade data from the USSR—this book demonstrates that, paradoxically, the globalization of the firm led to the *atomization* of global economic governance.

full description . . . .

When representatives from forty-four nation-states gathered in Bretton Woods, New Hampshire in 1944 to rebuild the international financial system, they knew one thing for sure: peace and prosperity could only be achieved through an inclusive, cooperative system of governing the global economy. After witnessing the protectionism of the Great Depression, and the extractive, asymmetric bilateral trade and currency agreements created by Nazi Germany under Finance Minister Hjalmar Schacht, world leaders came to believe that economic nationalism begets conflict. Instead, problems of global commerce required multilateral solutions. In the words of U.S. Secretary of State Dean Acheson, "Collective security, I said a while ago, is not divisible. Neither is foreign trade."[1]

At the heart of this book is the transformation that has occurred between the Bretton Woods conference and the present day. Beginning in the late 20th century, states increasingly lost interest in pursuing multilateral global governance. Instead, they signed thousands and thousands of *bilateral* economic agreements, each one of them inherently exclusionary, and many of them profoundly asymmetric. This transformation, which I label *atomization*, has occurred across several economic issue areas including international trade, international investment, and international taxation. Most puzzling of all is the fact that the states that led the postwar charge for multilateralism—primarily the U.S. and the U.K.—became the leading proponents of the shift towards bilateralism. What is the root cause of atomization? What led states to begin fragmenting governance that they previously thought to be indivisible?

The Atomizers argues that understanding atomization requires shifting focus away from global economic governance's *creators* and towards its *beneficiaries*: the firms engaged in global commerce. While states enter into international economic agreements with the ultimate goal of strengthening their own economies, this is often achieved by subsidizing the global operations of their own domestically-headquarted firms. States therefore rely heavily on input from domestic industry when designing economic agreements, as the agreement's value to the former often depends on its value to the latter.

Over the late 20th century, however, firms internationalized at an unprecedented rate, and international commerce came to be dominated by multinational corporations. I argue that multinational firms have a strong preference for bilateralism over multilateralism, as bilateral agreements provide them with targeted subsidies that are *not* granted to their competitors. As multinationals expand abroad into new host markets, they form new interest groups, which I call *bilateral lobbies*, to petition their home governments for deeper bilateral engagement with their host state. I draw on several new sources of data—including original data on bilateral business associations, corporate membership on federal advisory committees, and qualitative accounts of direct meetings between multinationals, diplomats, and world leaders—to trace the activities of the bilateral lobbies and demonstrate their policy influence. Paradoxically, international economic integration breeds global governance atomization.

The Atomizers provides a new account of the origins of contemporary economic nationalism. Many commentators view the populist wave of the 2010s—which saw leaders like Donald Trump, Boris Johnson, and Viktor Orbán take power—as a discontinuous shift away from multilateralism and

[1] Acheson (1945).

the liberal international order. Yet, I show that the fracturing of the postwar system of global economic governance began decades earlier, as the world's capital-exporting states raced to enact exclusionary bilateral agreements in order to give their own firms an edge in global markets. The resulting system, created to foster relative gains for multinationals, has led to an extreme concentration of wealth among a small handful of powerful "superstar" firms;[2] backlash against these giant multinationals has been robustly linked to declining support for global integration, both at home and abroad.[3]

This book also makes a substantial contribution to a foundational and enduring question in the field of international political economy: to what extent can the private sector shape foreign policy?[4] I argue that corporate influence on global economic governance is typically consensual rather than coercive; states rely on intelligence from their own multinationals in order to create international economic policy, in line with Robert Hall and Alan Deardorff's (2006) conception of lobbying as a governance subsidy that firms provide to aligned policymakers. Further, I identify a new venue for this type of international economic policy lobbying—direct contact between multinationals and their home state's embassies abroad—and provide both theory and evidence to suggest that firms regularly shape the *day-to-day* conduct of commercial diplomacy in addition to more salient outcomes such as treatymaking. Taken together, these innovations open the door for future research by expanding the field's idea of what counts as corporate influence (and where to look for it).

Finally, the book contributes to longstanding international relations literatures on the design of international institutions[5] and on states' motivations for engaging in bilateral economic cooperation.[6] I argue that neither literature has paid sufficient attention to the domestic politics of institutional design; the choice to implement an economic agreement bilaterally vs. multilaterally may not affect domestic interest groups' absolute gains, but it does affect the extent to which they stand to gain from the agreement *relative to their competitors*. We know that relative rather than absolute gains are the key determinant of firms' policy interests.[7] Following the "two-level game" model of international bargaining,[8] my theory uses the presence of bilateral interest groups to explain not only the formation but also the design of international economic agreements.

The Atomizers combines insights from international relations, political economy, and economic history to explain the origins of the current system that states have devised to govern the global economy, and to explain why that system is so different from the one originally envisioned. It will be of interest to academic readers, primarily in the fields of international political economy and political science but also in history and economics; policymakers and diplomats involved in the creation and implementation of international economic policy, as well as staff of international organizations pursuing multilateral reform; and informed publics, curious to learn the origins of the rules that govern the world.

[2] Autor et al. (2020), Baccini, Pinto and Weymouth (2017).

[3] Menon and Osgood (2024), Rodrik (2018).

[4] See e.g. Farrell and Newman (2019); Gilpin (1975); Milner (1987); Strange (1992); Thrall (2024).

[5] See e.g. Downs, Rocke and Barsoom (1996); Keohane (1990); Koremenos, Lipson and Snidal (2001); Ruggie (1992); Thompson and Verdier (2014).

[6] See e.g. Baldwin and Jaimovich (2012); Barthel and Neumayer (2012); Chilton (2016); Elkins, Guzman and Simmons (2006); Voeten (2021).

[7] Stigler (1971).

[8] Putnam (1988).

chapter outline

1—introduction
The introductory chapter begins by describing the transformation in global economic governance that has occurred since the end of World War II—what I call atomization—and describing why this shift is so puzzling in light of states' original intentions for the system. It goes on to provide an overview of the theoretical argument, and discusses the real world and academic contributions of the book. Finally, the introduction concludes with a "plan of the book," describing in brief the contents, data, and methods used in each of the following chapters.

2—atomization
The primary goal of this chapter is to introduce, in depth, the phenomenon of atomization that is at the heart of the book. To do so, I first combine descriptive data on treatymaking with historical accounts of postwar international cooperation in three major global economic governance areas—investment, taxation, and trade—to show that, across all three, a similar shift away from multilateralism occurred in the late 20th century. Second, to provide a broader picture of atomization across issues, I zoom in on the U.S. case. Using two of the most comprehensive U.S. treaty collections, I demonstrate that atomization has occurred across all commercial issue areas but has *not* occurred in other issues; I also show that U.S. funding for the UN and UN agencies has fallen over this period, suggesting that multilateral cooperation has not simply shifted venues to international organizations. Second, I review existing academic literatures on the design of international institutions and on bilateral economic treatymaking and show that no prior theory provides a comprehensive explanation for atomization.

3—a political economy theory of atomization
Chapter 3 provides a new explanation for why global economic governance has become atomized. The theory proceeds in three parts: first, I chart the ascendancy of the multinational firm from a minor concern in the postwar period to a major driver of the global economy at the turn of the century. Next, I argue that the globalization of the firm had two effects on firms' preferences: first, at the macro level, more multinational firms led to greater than ever demand for global economic governance. Second, at the micro level, I argue that as individual firms begin to expand abroad into specific host markets, they increasingly prefer bilateral economic agreements that will subsidize their own operations but not those of their competitors.

Finally, I argue that multinational firms' preferences often translate into policy because their *home* governments rely on these large firms' profitability for the health of their own domestic economies, giving home states an incentive to be responsive to their multinationals' preferences. I argue that multinational firms lobby in favor of bilateralism both *from above*—through targeting home state leaders, legislatures, and executive agencies—and *from below* through making direct contact with their home state's diplomats abroad.

4—MNEs and atomization: testing the reduced form
The theory's main prediction is that atomization will follow investment at the dyadic level: as multinational firms from State A begin to build a presence in State B, I expect them to begin petitioning State A for bilateral integration with State B, ultimately leading to bilateral economic agreements. Chapter 4 provides quantitative evidence in line with this basic prediction, focusing on the United States due to the availability of long-run dyadic foreign direct investment data. I show that, as U.S. firms build their operations in a specific partner state, the overall ratio of bilateral

to multilateral agreements that the U.S. signs with that state increases; as expected, this relationship does not hold for other capital-exporting partner states, and is robust to controlling for key variables from extant theories of treatymaking. Further, I show that investment from U.S. multinational firms is a robust predictor of bilateral treaty formation in three different areas: bilateral investment treaties, bilateral taxation agreements, and trade and investment framework (TIFA) agreements. As predicted, atomization grows in the wake of bilateral economic integration.

5—lobbying from above

Chapter 5 explores one of the two proposed channels through which multinationals can petition their home governments for greater bilateral integration with their host states: lobbying high-ranking executive agency officials in their home state. I examine an understudied but crucially important site of corporate foreign economic policy influence in the United States: federal advisory committees (FACs), longstanding institutions in which groups of private sector representatives directly advise executive agencies on policymaking. I link corporate databases to over two decades of data on international trade and investment-related FAC membership, allowing me to determine which firm-level factors influence committee membership. First, as predicted, multinational firms are *much* more likely to receive FAC appointments than their purely domestic counterparts. Second, using data on trade agreement negotiation timelines from the U.S. Trade Representative, I show that firms with investments in a given state are much more likely to receive a FAC appointment when the U.S. begins negotiating a bilateral trade agreement with that state; I complement the quantitative results with firm-level examples. These findings validate the claim that multinational firms, and bilateral lobbies in particular, exert outsized influence over high-level international economic policymaking.

6—lobbying from below[9]

Chapter 6 examines the other one of the book's proposed channels through which firms lobby for bilateral economic agreements: direct contact with their home state's diplomats abroad. To do so, I study the proliferation of bilateral business associations (BBAs), interest groups composed of multinationals from the same home state operating abroad in the same host state. The BBA's primary goal is to strengthen the economic relationship between home and host state; to do so, it often works closely with its home state's embassy abroad to advocate for greater bilateral integration. Using original data on French, German, U.K., and U.S. BBAs, I show that these organizations proliferated widely during the age of atomization. Further, I show that BBAs are robust predictors of the formation of bilateral investment treaties, bilateral tax treaties, and bilateral trade and investment framework agreements.[10] To further investigate the mechanism, I use modern text analysis techniques to analyze a large corpus (>34m words) of oral history interviews with retired U.S. diplomats; both quantitative and qualitative results suggest that BBAs influenced diplomats to place greater importance on bilateral commercial issues. This chapter identifies the BBA as an overlooked but key driver of atomization, and provides evidence that interest groups can shape foreign policy both at home and abroad.

7—atomization in the former soviet republics

In the final empirical chapter, I use a combination of quantitative and case study evidence to evaluate the predictions of my theory in a unique historical setting: the years leading up to,

[9] Some of the material in this chapter was published in the *American Journal of Political Science* under the title "Informational Lobbying and Commercial Diplomacy" (Thrall, 2024).

[10] Trade and investment framework agreement results are for the U.S. only, as the other states under study do not sign this type of agreement.

and following, the fragmentation of the Soviet Union into fifteen independent states. During this relatively brief period, more than a dozen new states emerged and began conducting their own diplomatic relations, including signing economic treaties; variation in the treatymaking behavior of these nascent states cannot be explained by extant theories. Using Soviet-era bilateral trade data for the former Soviet Republics, I first show that states' *pre*-independence commercial relationships are strong predictors of their *post*-independence bilateral treatymaking. Second, I draw on several primary and secondary sources to conduct a detailed case study of the United States' economic treatymaking with the Post-Soviet states. I argue that the U.S. focus on signing bilateral economic agreements with Kazakhstan is largely attributable to U.S. oil major Chevron's Soviet-era agreement to invest in the Tengiz oilfields. I show that Chevron pursued both top-down and bottom-up lobbying strategies, securing the support of both the White House and the U.S. Embassy, and as such was able to procure multiple bilateral economic agreements within just a few years.

8—conclusion: atomized forever?
The Atomizers tells the story of how global economic governance was transformed from the multilateralism of the postwar period to the fragmented bilateralism of the 21st century. However, it is not only a story about the past. The atomizers themselves—multinational enterprises—are still among us, and there is little evidence that their influence is waning. The book's concluding chapter discusses the implications of the preceding theory and evidence for contemporary and future global economic governance efforts, and surveys proposed policy innovations that might prevent the world from being atomized forever.

author information

Calvin Thrall is an assistant professor in the Department of Political Science at Columbia University, where he is also a Faculty Member of the Saltzman Institute for War and Peace Studies. His research examines the influence of firms and diplomats in both international and domestic policy processes, as well as firms' strategic responses to state regulation (and predation). Much of his work has highlighted strategic corporate behavior in the international investment and taxation regimes, often involving creative text-based data collection strategies and the use of "forensic" social science to detect firms' latent strategies. More recent work examines how public policy impacts firms' labor demand, and vice versa, with implications for corporate accountability and the quality of climate policy.

Thrall's articles have been published in peer-reviewed journals such as *American Journal of Political Science*, *International Organization*, and *International Studies Quarterly*, and his work has received the David A. Lake Award from the International Political Economy Society. He has written research-based articles for *The Washington Post*, *ProMarket*, and *The Conversation*, and his work has been cited in the *New York Times* as well as in policy briefs prepared for the European Parliament and the Texas State Legislature. Thrall received his PhD in Government from the University of Texas at Austin, and his BA in Political Science from Temple University in Philadelphia.

readership

Scholars of international relations and (international) political economy are likely to constitute the primary readership of *The Atomizers*. The book speaks to enduring IR and IPE questions: what determines the design of international institutions? How does the private sector influence foreign policy? What are the unintended political consequences of globalization? *The Atomizers* will also be of interest to scholars of international and economic history, as it provides a novel account of the recent history of global economic governance (often using primary source documents). Finally, *The Atomizers* is a book that identifies a pathology of contemporary world politics and discusses potential policy solutions; it will therefore be of interest to the many policymakers, both within national governments as well as intergovernmental organizations like the UN and the OECD, who are currently attempting to reform global economic governance.

comparable books

The Atomizers introduces the phenomenon—atomization—that it seeks to explain, and as such there is no directly competing book. However, it complements a recent wave of books in international political economy (IPE) that explore corporate influence in international politics. It also builds upon recent influential histories of global economic governance.

Several influential books in IPE document firms' attempts to shape international economic policy to their own liking. For example, in *Merging Interests*, Sarah Bauerle Danzmann (2019) argues that large domestic firms often lobby for FDI liberalization in order to ease financing constraints. In *Regulating Risk*, Rebecca Perlman (2023) shows that innovative firms often lobby in favor of stricter international product regulations in order to increase their own market share. Similarly, in *Narrowing the Channel*, Robert Gulotty (2020) argues that large multinational firms lobby for regulatory barriers to trade that disadvantage their smaller competitors; he concludes, as I do, that the globalization of the firm may actually hinder international economic cooperation. *The Atomizers* builds on these works by demonstrating that, across several different economic issue areas, multinational firms seek exclusionary *liberalization* to give themselves an edge over their competitors.

Another branch of recent IPE scholarship has argued that governments themselves pay close attention to their firms' international commercial networks when crafting foreign policy. In *A World Safe for Commerce*, Dale Copeland (2024) argues that a key driver of the last few hundred years of great power competition is states' desire to build and protect their firms' global commercial relationships. In *Underground Empire*, Henry Farrell and Abraham Newman (2024) argue that states—in particular, the U.S.—can *weaponize* their firms' private global networks, leveraging economic interdependence as a coercive tool. *The Atomizers* provides another reason why states take their own firms' international operations into account when making foreign policy: the profitability of a state's multinational enterprises is a key driver of that state's own economic growth. To ensure domestic prosperity, leaders must take steps to subsidize their firms' foreign operations—often to the detriment of their competitors.

Finally, two recent, high-impact books in the field of international history have explored the genesis of our current system of global economic governance. In *The Meddlers*, Jamie Martin (2022) explores the process by which the world's first multilateral economic institutions were formed in the pre-World War II period. According to Martin, the "meddlers" who convinced states to relinquish some domestic control over international economic policy were bankers, bureaucrats, and interest groups such as the International Chamber of Commerce (ICC). Similarly, in *Globalists*, Quinn Slobodian (2020) situates the origins of many 20th century global governance institutions—the League of Nations, the European Economic Community, and international investment law—in the efforts of neoliberal thinkers in the Vienna School to "encase" international markets, protecting capital from decolonization and democratization.

Martin's narrative ends in the 1940s, and Slobodian's ends in 1980; *The Atomizers* picks up where they left off, completing an unofficial trilogy on the drivers of the last century of global economic governance. Martin and Slobodian demonstrate that private industry, largely through associations such as the ICC and the National Association of Manufacturers, has long had a seat at the table when states create international economic policy. However, while the private sector once used their sway to push for multilateralism, I demonstrate how the globalization of the firm increased business's demand for *exclusionary* forms of global economic governance. The bilateral lobbies, nonentities during the early 20th century, grew more influential than catchall organizations like the ICC toward the century's end; as a result, multilateralism stalled while bilateralism flourished. The world that the meddlers constructed, and upon which the globalists built, has been split into pieces by the atomizers.

References

Acheson, Dean. 1945. "An Economic Policy for Peace." *Department of State Bulletin* 12(300).

Autor, David, David Dorn, Lawrence F Katz, Christina Patterson and John Van Reenen. 2020. "The Fall of the Labor Share and the Rise of Superstar Firms." *Quarterly Journal of Economics* 135(2):645–709.

Baccini, Leonardo, Pablo M. Pinto and Stephen Weymouth. 2017. "The Distributional Consequences of Preferential Trade Liberalization: Firm-Level Evidence." *International Organization* 71(2):373–395.

Baldwin, Richard and Dany Jaimovich. 2012. "Are Free Trade Agreements Contagious?" *Journal of International Economics* 88(1):1–16.

Barthel, Fabian and Eric Neumayer. 2012. "Competing for Scarce Foreign Capital: Spatial Dependence in the Diffusion of Double Taxation Treaties." *International Studies Quarterly* 56(4):645–60.

Bauerle Danzman, Sarah. 2019. *Merging Interests: When Domestic Firms Shape FDI Policy*. Business and Public Policy Cambridge: Cambridge University Press.

Chilton, Adam S. 2016. "The Political Motivations of the United States' Bilateral Investment Treaty Program." *Review of International Political Economy* 23(4):614–642.

Copeland, Dale C. 2024. *A World Safe for Commerce: American Foreign Policy from the Revolution to the Rise of China*. Number v.209 *in* "Princeton Studies in International History and Politics Series" Princeton: Princeton University Press.

Downs, George W, David M Rocke and Peter N Barsoom. 1996. "Is the Good News about Compliance Good News about Cooperation?" *International Organization* 50(3):379–406.

Elkins, Zachary, Andrew T Guzman and Beth A Simmons. 2006. "Competing for Capital: The Diffusion of Bilateral Investment Treaties , 1960 – 2000." *International Organization* 60(Fall):811–846.

Farrell, Henry and Abraham L Newman. 2019. "Weaponized Interdependence: How Global Economic Networks Shape State Coercion." *International Security* 44(1):42–79.

Farrell, Henry and Abraham Newman. 2024. *Underground Empire: How America Weaponized the World Economy*. London: Penguin.

Gilpin, Robert. 1975. *U.S. Power and the Multinational Corporation*. Basic Books.

Gulotty, Robert. 2020. *Narrowing the Channel: The Politics of Regulatory Protection in International Trade*. Chicago Series on International and Domestic Institutions Chicago London: The University of Chicago Press.

Hall, Richard L. and Alan V. Deardorff. 2006. "Lobbying as Legislative Subsidy." *American Political Science Review* 100(1):69–84.

Keohane, Robert O. 1990. "Multilateralism: An Agenda for Research." *International Journal: Canada's Journal of Global Policy Analysis* 45(4):731–764.

Koremenos, Barbara, Charles Lipson and Duncan Snidal. 2001. "The Rational Design of International Institutions." *International Organization* 55(4):761–799.

Martin, Jamie. 2022. *The Meddlers: Sovereignty, Empire, and the Birth of Global Economic Governance*. Cambridge, Massachusetts: Harvard University Press.

Menon, Anil and Iain Osgood. 2024. "The Wrong Winners: Anti-Corporate Animus and Attitudes Towards Trade." *British Journal of Political Science* pp. 1–18.

Milner, Helen. 1987. "Resisting the Protectionist Temptation: Industry and the Making of Trade Policy in France and the United States during the 1970s." *International organization* 41(4):639–665.

Perlman, Rebecca L. 2023. *Regulating Risk: How Private Information Shapes Global Safety Standards*. Cambridge: Cambridge University Press.

Putnam, Robert D. 1988. "Diplomacy and Domestic Politics : The Logic of Two-Level Games." *International Organization* 42(3):427–460.

Rodrik, Dani. 2018. "Populism and the Economics of Globalization." *Journal of International Business Policy* 1(1-2):12–33.

Ruggie, John Gerard. 1992. "Multilateralism: The Anatomy of an Institution." *International Organization* 46(3):561–598.

Slobodian, Quinn. 2020. *Globalists: The End of Empire and the Birth of Neoliberalism*. First harvard university press paperback edition ed. Cambridge, Massachusetts London, England: Harvard University Press.

Stigler, George J. 1971. "The Theory of Economic Regulation." *The Bell Journal of Economics and Management Science* 2(1):3.

Strange, Susan. 1992. "States, Firms and Diplomacy." *International Affairs* 68(1):1–15.

Thompson, Alexander and Daniel Verdier. 2014. "Multilateralism, Bilateralism, and Regime Design." *International Studies Quarterly* 58(1):15–28.

Thrall, Calvin. 2024. "Informational Lobbying and Commercial Diplomacy." *American Journal of Political Science* Forthcoming:1–54.

Voeten, Erik. 2021. *Ideology and International Institutions*. 1 ed. Princeton University Press.