

Contents

<i>List of figures</i>	xv
<i>List of tables</i>	xvi
<i>List of boxes</i>	xviii
<i>List of abbreviations</i>	xix
<i>Acknowledgements</i>	xxi
<i>Introduction to the second edition</i>	xxii

PART I FACTS, THEORY AND HISTORY

1	Definitions and sources of data	3
1.1	The nature of a multinational enterprise	3
1.1.1	A working definition	3
1.1.2	The distinctive features of an MNE	5
1.1.3	Forms of foreign involvement by MNEs	7
1.2	Measuring the extent and pattern of multinational activity	9
1.2.1	Sources and types of data	9
1.2.2	Deficiencies in the quality of statistical data on FDI	12
1.2.3	Size and stability of foreign investment flows	15
2	The extent and pattern of foreign direct investment	17
2.1	Introduction	17
2.2	A general overview	17
2.2.1	The position in the beginning of the 21st century	17
2.2.2	General trends	19
2.3	The leading outward investors	23
2.3.1	The facts	23
2.3.2	The significance of outward direct investment to home countries	27
2.4	The leading inward investors	29
2.4.1	The facts	29
2.4.2	The significance of inward direct investment for host countries	33
2.5	The balance between outward and inward direct investment	34
2.6	The sectoral composition of outward and inward investment	35
2.6.1	The main orders of economic activity	35
2.6.2	The composition of FDI within broad industrial sectors	38
2.7	Some country-specific differences in the geography of foreign investment	48
2.7.1	Outward direct investment	48
2.7.2	Inward direct investment	49

2.8	The world's leading MNEs	54
2.8.1	The transnationality index	61
2.8.2	The rise and decline of state-owned enterprises	61
3	The motives for foreign production	63
3.1	Introduction	63
3.2	Why do firms wish to engage in foreign production?	63
3.3	The main types of foreign production	67
3.3.1	The natural resource seekers	68
3.3.2	The market seekers	69
3.3.3	The efficiency seekers	72
3.3.4	The strategic asset seekers	72
3.3.5	Other motives for MNE activity	74
3.4	The political economy of outward FDI	77
3.5	Conclusions	78
4	Theories of foreign direct investment	79
4.1	Introduction	79
4.2	Theories of the MNE and MNE activity: 1960–76	82
4.2.1	Prior to the 1960s	82
4.2.2	The contribution of Hymer	83
4.2.3	The product cycle	85
4.2.4	Follow-up developments	86
4.2.5	Other theoretical contributions: a selected view	89
4.3	General explanations of MNE activity	93
4.3.1	Internalisation theory	93
4.3.2	The eclectic or OLI paradigm	95
4.3.3	A macroeconomic approach to understanding MNE activity	109
4.4	A note on an evolutionary approach to explaining MNE activity	111
4.5	Issues resolved and unresolved by received theory	113
5	The determinants of MNE activity: the OLI paradigm revisited	116
5.1	Introduction	116
5.2	New theoretical perspectives	117
5.2.1	Cooperative relationships and I advantages	117
5.2.2	The resource-based view and dynamic O advantages	120
5.2.3	The knowledge-based theory of the firm and dynamic O advantages	122
5.3	Institutions in international business	123
5.3.1	Why focus on institutions?	125
5.3.2	Institutions in the international business literature	126
5.4	Incorporating institutions into the OLI paradigm	129
5.4.1	Institutions defined	129
5.4.2	Ownership-specific advantages	131
5.4.3	Locational factors	137

5.4.4	Internalisation factors	140
5.4.5	Propositions regarding institutional transfer and change	142
5.5	Conclusions	143
6	The emergence and maturing of international production: an historical excursion	145
6.1	Introduction	145
6.2	Colonising and merchant capitalism	146
6.3	The early 19th century: the forerunners of the modern MNE	149
6.3.1	Introduction	149
6.3.2	The individual entrepreneurs	150
6.3.3	The finance capitalists	151
6.3.4	The embryonic MNEs	152
6.4	From 1870 onwards: the modern MNE emerges	154
6.4.1	New technological and organisational advances	154
6.4.2	Market-seeking investments	157
6.4.3	Resource-seeking investments	163
6.4.4	Other investments	170
6.4.5	The position prior to 1914: a résumé	172
6.5	The maturing of foreign production: 1918–39	176
6.5.1	Introduction	176
6.5.2	Market-seeking investments	179
6.5.3	Resource-based investments	183
6.5.4	Other investments	183
6.5.5	The inter-war years: conclusions	184
6.6	The early post-war period: 1945–60	185
6.6.1	Some facts	185
6.6.2	Changes in the organisation of international business	186
6.6.3	Changes in locational determinants	188
6.7	Towards the globalisation of production: 1960–2000	189
6.7.1	Introduction	189
6.7.2	Changes in organisational form	191
6.7.3	Recent locational changes	194
6.8	Conclusions	196
 PART II INSIDE THE MULTINATIONAL ENTERPRISE		
7	Entry and expansion strategies of MNEs	201
7.1	Introduction	201
7.2	The concept of business strategy	202
7.3	The value-added chain	205
7.3.1	Some general principles	205
7.3.2	Value-added networks and MNE activity	206
7.4	Analysis of the internationalisation process	212
7.4.1	Introduction	212
7.4.2	Learning in the internationalisation process	212

7.4.3	A network approach to the multinational firm	213
7.4.4	Phase 1: exports and foreign sourcing	215
7.4.5	Phase 2: investment in marketing and distribution	218
7.4.6	Phase 3: foreign production of intermediate goods and services	221
7.4.7	Phase 4: deepening and widening of the value-added network	223
7.4.8	Phase 5: the integrated network multinational	227
7.5	Conclusions	231
8	The organisation of MNE activity: the internal network	233
8.1	Introduction	233
8.2	The organisational function: some general observations	234
8.2.1	The need for an organisational structure	234
8.2.2	Strategic responses to organisational needs	236
8.3	Organisational structures of MNEs	238
8.3.1	Some general points	238
8.3.2	Organisational governance of domestic firms	239
8.3.3	The impact of internationalisation on organisational governance	241
8.3.4	The organisational structure of global firms	243
8.3.5	Organisational structures: a résumé	248
8.4	The locus of decision making	249
8.4.1	Introduction	249
8.4.2	An economic approach to decision making	250
8.4.3	A strategic approach to decision making	252
8.5	Affiliate roles and evolution	253
8.5.1	Introduction	253
8.5.2	Affiliate autonomy	254
8.5.3	Knowledge transfer	256
8.6	Conclusions	258
9	The organisation of MNE activity: the external network	260
9.1	Introduction	260
9.2	The spectrum of organisational modes: cooperation and competition	260
9.3	Cooperative agreements: some theoretical and methodological considerations	264
9.3.1	Transaction costs and resource attributes	264
9.3.2	Some methodological issues	267
9.4	Joint equity ventures	269
9.4.1	Why do firms enter into joint ventures?	269
9.4.2	When are joint ventures likely to succeed?	272
9.4.3	Cultural and institutional influences in joint ventures	274
9.4.4	Concluding remarks	275
9.5	Non-equity cooperative agreements	277
9.5.1	Buyer/seller agreements	277
9.5.2	Strategic alliances	281
9.6	The choice between acquisitions, alliances and greenfield investment	286

9.7	A note on cross-border cartels and collusion	287
9.8	Conclusions	289

PART III THE IMPACT OF MNE ACTIVITY

10	FDI, growth and development	295
10.1	Introduction	295
10.2	A new paradigm of development	297
10.3	Institutions and economic growth	300
10.3.1	Formal institutions	301
10.3.2	Informal institutions and social capital	304
10.4	Institutional quality and the ability to attract FDI	308
10.4.1	Good governance	309
10.4.2	Bad governance	310
10.4.3	Conclusion	314
10.5	Economic growth and inbound FDI	314
10.5.1	How does FDI affect growth?	315
10.5.2	Empirical evidence	316
10.5.3	Conclusions	317
10.6	The OLI paradigm revisited	318
10.6.1	O-specific advantages	320
10.6.2	L-specific advantages	323
10.6.3	I-related advantages	327
10.7	The investment development path	330
10.7.1	Stages of the IDP	330
10.7.2	Institutions and the IDP	336
10.8	Conclusions	338
11	Technology and innovatory capacity: the role of firms	340
11.1	Introduction	340
11.1.1	Direct and indirect effects	341
11.1.2	Some stylised facts	342
11.1.3	Some definitions and a taxonomy of technology	343
11.2	The distribution of technological capacity	345
11.2.1	R&D expenditures	345
11.2.2	Training of scientists and engineers	349
11.2.3	Patenting	351
11.2.4	Royalties and licence fees	354
11.3	The impact of MNEs on host country technological capacity	356
11.3.1	Share of foreign affiliates in funding and performing R&D	358
11.3.2	R&D intensity of foreign affiliates	360
11.3.3	Spillovers to local firms	361
11.4	The transfer and adaptation of technology by MNEs	362
11.4.1	Market size and characteristics	363
11.4.2	Factor availability and price differentials	364
11.4.3	Institutional and cultural differences	366

11.5	Motivation, type and organisation of affiliate R&D	368
11.5.1	Motivations for affiliate R&D	369
11.5.2	Types of R&D performed by affiliates	370
11.5.3	Organisation of affiliate R&D	372
11.6	The internationalisation of corporate R&D	374
11.6.1	Diversification and the technological profiles of MNEs	374
11.6.2	How international is corporate R&D?	376
11.7	External technology sourcing by MNEs	378
11.7.1	Motivations for R&D alliances	378
11.7.2	Trends in alliance activity	379
11.7.3	Choice between alliances and acquisitions	381
11.8	Conclusions	381
12	Technology and innovatory capacity: the role of government	383
12.1	Introduction	383
12.2	The role of government in host countries	383
12.2.1	The ability of governments to affect indigenous technological capacity	384
12.2.2	Strategies of host governments	388
12.2.3	Developing countries and technological capabilities	397
12.3	The role of government in home countries	400
12.3.1	Effects of asset-exploiting investment	401
12.3.2	Effects of asset-augmenting investment	405
12.3.3	FDI as a means of domestic technological restructuring	409
12.4	Conclusions	411
13	Employment and human resource development	414
13.1	Introduction	414
13.2	Theoretical underpinnings	416
13.2.1	What is distinctive about MNEs? A reprise	416
13.2.2	A methodological note	419
13.3	Employment in MNEs	420
13.4	The employment effects of MNE activity on home countries	425
13.4.1	Earlier empirical evidence on home country employment effects	428
13.4.2	Recent empirical evidence on home country employment effects	430
13.4.3	The effects of outsourcing	433
13.4.4	Conclusions	435
13.5	The employment effects of MNE activity on host countries	436
13.5.1	Earlier empirical evidence on host country effects on employment and wages	438
13.5.2	Wages, productivity and skills: recent evidence	441
13.5.3	Conclusions	443
13.6	Employment conditions	444
13.6.1	The training practices of MNEs	444

13.6.2	Working practices and standards	450
13.6.3	Labour-management relations	452
13.7	ILO core labour standards	454
13.7.1	Sweatshops and EPZs	456
13.7.2	Child labour	458
13.8	MNEs and human resource development: some policy considerations	459
14	The balance of payments and the structure of trade	463
14.1	Introduction	463
14.2	A methodological note	464
14.2.1	Measuring the direct effects of MNE activity	464
14.2.2	Assessing the opportunity cost of external transactions by MNEs	466
14.3	Measuring the transactions of MNEs	469
14.3.1	Identifying and evaluating the transactions in the home and host countries: some analytical issues	469
14.3.2	Some empirical results: home countries	474
14.3.3	Some empirical results: host countries	478
14.4	Intra-firm trade	482
14.4.1	The determinants of intra-firm trade	482
14.4.2	Empirical evidence of the extent of intra-firm trade	484
14.4.3	The implications of intra-firm trade	489
14.5	MNEs and the structure of trade	490
14.5.1	The distribution of MNE activity across sectors	491
14.5.2	The export intensity of foreign affiliates and indigenous firms	493
14.6	A policy footnote	496
14.6.1	Macroeconomic policies and MNEs	496
14.6.2	The stability of the global financial system	498
14.7	Conclusions: the evolution of trade and FDI linkages	500
15	Market structure, performance and business practices	503
15.1	Introduction	503
15.2	A conceptual framework	504
15.3	MNEs and allocative efficiency	506
15.3.1	Inter-sectoral efficiency	507
15.3.2	Intra-sectoral efficiency	511
15.3.3	Effects on the home country	513
15.3.4	Conclusions	516
15.4	MNEs and technical efficiency	517
15.4.1	Evidence of productivity gaps	518
15.4.2	The impact of acquisitions on productivity	523
15.4.3	Evidence of profitability gaps	524
15.5	MNEs and market structure	530
15.5.1	Market concentration	531
15.5.2	Product differentiation	537

15.5.3	Entry and exit barriers	538
15.5.4	Competitive effects and crowding out in the host market	539
15.6	Conduct and business practices of MNEs	542
15.7	Conclusions	548
16	Linkages, spillovers and clustering	551
16.1	Introduction	551
16.2	Backward and forward linkages to local firms	554
16.2.1	Backward linkages to local suppliers	554
16.2.2	Forward linkages with customers	569
16.2.3	Effects on the productivity of local suppliers	573
16.3	The spillover effects of MNE activity	579
16.3.1	Some general remarks	579
16.3.2	How might indigenous firms be affected?	580
16.3.3	Some issues of measurement	582
16.3.4	Earlier econometric evidence of productivity spillovers	584
16.3.5	Recent econometric evidence of productivity spillovers	585
16.3.6	Some policy considerations	592
16.4	Clustering of economic activity	593
16.4.1	Introduction	593
16.4.2	MNE location choice and agglomeration	594
16.4.3	Measuring agglomeration	597
16.4.4	Knowledge spillovers and agglomeration	599
16.4.5	Regions and innovation	600
16.4.6	A note on policy	602
16.5	Summary and conclusions	603
17	Distribution of the value added created by MNEs	606
17.1	Introduction	606
17.2	The impact of government policy on national value added by MNEs	608
17.2.1	A host country perspective	608
17.2.2	A home country perspective	610
17.2.3	Recent trends in corporate taxation	612
17.2.4	The response of MNEs to taxation differentials	614
17.2.5	National tax strategy in a global economy	619
17.3	Transfer pricing	620
17.3.1	Introduction	620
17.3.2	The motivation for TPM	621
17.3.3	The opportunities for transfer pricing	623
17.3.4	The constraints on TPM	624
17.3.5	The evidence for TPM	625
17.4	Policies of governments towards TPM	629
17.4.1	Unilateral policies	629
17.4.2	Supranational action	633

17.4.3	Indirect economic effects of TPM	634
17.4.4	Challenges for the future	635
17.5	Conclusions	635
18	Political, cultural and social responsibility issues	637
18.1	Introduction	637
18.2	MNEs and sovereignty	638
18.2.1	Economic welfare and sovereignty	638
18.2.2	Economic autonomy and/or independence	639
18.3	MNEs and strategic interests	642
18.3.1	National security	643
18.4	The cultural and institutional influence of MNEs	647
18.5	MNEs and corporate social responsibility	649
18.5.1	Introduction	649
18.5.2	The 'business case' for social responsibility	650
18.5.3	Whose standards should apply?	653
18.5.4	Evidence on the contribution of MNEs to social issues	655
18.5.5	Limits to the market for virtue	658
18.6	Conclusions	660
PART IV IMPLICATIONS FOR POLICY		
19	Governments and MNE activity: the unilateral response	665
19.1	Introduction	665
19.2	Some theoretical issues	666
19.2.1	A further application of the OLI paradigm	666
19.2.2	A schematic framework	668
19.2.3	A bargaining model	670
19.3	Interaction between host governments and MNEs	674
19.3.1	The changing scenario over the past 40 years	674
19.3.2	Policies specifically directed to affect inward direct investment	681
19.3.3	General policies of host governments as a consequence of the growth of inward direct investment	688
19.4	Actions of home governments towards outward direct investment	691
19.5	The changing political economy of foreign investment	694
19.5.1	Sovereignty at bay in the digital economy	694
19.5.2	States, firms and civil society	696
19.6	The case of extra-territoriality: how might home/host differences be reconciled?	697
19.6.1	Introduction	697
19.6.2	Export embargoes	698
19.6.3	Application of anti-trust policy	700
19.6.4	Responsibility for human rights violations	702
19.6.5	Other areas of conflict	703
19.7	Conclusions	704

20	Governments and MNE activity: the multilateral response	707
20.1	Introduction	707
20.2	Multinational actions to assist the bargaining power of host countries	708
20.2.1	Collective action by countries	708
20.2.2	Assisting national governments to re-evaluate their domestic policies	709
20.2.3	Codes and guidelines	710
20.2.4	A new international governance structure?	712
20.3	Collective investment supporting or market-facilitating schemes	712
20.4	Regional integration	714
20.4.1	Introduction	714
20.4.2	The determinants of the international allocation of economic activity	715
20.4.3	The role of MNEs in influencing the international allocation of activity	717
20.4.4	Recent efforts at regionalisation	719
20.4.5	Regional agreements and the multilateral system	721
20.5	Setting the conditions for international investment: the role of multilateral institutions	722
20.5.1	Investment-related measures under the WTO	722
20.5.2	The prospects for a multilateral agreement on investment	726
20.5.3	Commitments under the Kyoto protocol	728
20.6	Conclusions: towards a new multilateral governance	730

PART V LOOKING AHEAD

21	The future of MNEs in a global economy	735
21.1	Introduction: the five stages in the evolution of the global economy	735
21.1.1	Stage 1: up to 1914	735
21.1.2	Stage 2: Inter-war years	736
21.1.3	Stage 3: 1945 to late 1960s	737
21.1.4	Stage 4: from late 1960s to mid-1980s	738
21.1.5	Stage 5: mid-1980s to date	739
21.2	The determinants of international production: a reprise	740
21.3	Contemporary developments	742
21.3.1	Technological advances	742
21.3.2	Economic development	745
21.3.3	New organisational forms	748
21.3.4	The role of government	750
21.4	Challenges for scholarship in the 21st century	758
21.5	Conclusions	761
	<i>Notes</i>	765
	<i>References</i>	817
	<i>Index</i>	891

Figures

0.1	Analysing the role of MNEs in the global economy: a conceptual outline	xxiv
7.1	The value chain: four possible cases	210
7.2	The possible evolution of an MNE	216
8.1	Four types of MNE organisational structure	240
10.1	Some dynamics of the OLI paradigm from the perspective of an MNE	319
16.1	The direct and indirect effects of MNE entry on a host country	552
19.1	The MNE–home/host country relationship	669
19.2	MNEs and host countries – a bargaining framework	671

Tables

2.1	The significance of MNEs in the global economy	19
2.2	Sales and purchases of cross-border M&As by industry, 1990–2005	21
2.3	Outward stock of FDI by major home countries and regions	24
2.4	Outflows of FDI from major home countries and regions	25
2.5	Outward stock of FDI for selected developing countries and transition economies	26
2.6	Inward stock of FDI by major host countries and regions	31
2.7	Changes in the sectoral composition of the stock of outward FDI of investing countries, 1975–2003	37
2.8a	Industrial distribution of outward FDI stock for selected developed economies, 2003	40
2.8b	Industrial distribution of outward FDI stock for selected developing and transition economies, 1997–2003	42
2.9a	Industrial distribution of inward FDI stock for selected developed economies, 2003	44
2.9b	Industrial distribution of inward FDI stock for selected developing and transition economies, 1997–2004	46
2.10a	Geographical distribution of the outward FDI stock of selected developed economies	50
2.10b	Geographical distribution of the outward FDI stock of selected developing economies	52
2.11	The world's top 50 non-financial MNEs ranked by foreign assets, 2004	55
2.12	The world's top 50 non-financial MNEs from developing countries ranked by foreign assets, 2004	58
4.1	Types of international production: some determining factors	104
4.2	Some illustrations of how OLI characteristics may vary according to country-, industry- and firm-specific circumstances	106
5.1	Incorporating institutional assets into the eclectic paradigm	135
6.1	Estimated stock of accumulated FDI by country of origin, 1914–1960	174
6.2	Estimated stock of accumulated FDI by recipient country or area, 1914–1960	175
9.1	A typology of cross-border cooperation modes	261
10.1	Stages of economic development	332
11.1	Gross domestic expenditure on R&D as a percentage of GDP, 1981–2005	346
11.2	First university degrees and share of S&E degrees in selected countries, 1975–2004	350
11.3	Share of S&E fields in doctoral degrees in selected countries, 2002	352
11.4	Number of triadic patent families and share (of OECD total) of countries in patent families	355

11.5	Payments and receipts of royalties and licence fees by MNE affiliates in selected host countries and affiliate share in host country total	357
11.6	R&D expenditures of foreign affiliates as a percentage of host country total in selected developed and developing countries, 1993–2004	359
13.1	Affiliate employment in host country manufacturing and affiliate share of manufacturing and total employment	422
13.2	Employment in foreign affiliates of home-based MNEs and their share of total home country employment	423
13.3	Selected indicators of the importance of MNE affiliates in host economies	424
14.1	The US balance of payments	472
14.2	Share of foreign MNE affiliates in the trade of selected host countries and intra-firm trade as a percentage of affiliate trade	485
14.3	Share of intra-firm trade in goods by US affiliates abroad and foreign affiliates in the US	486
14.4	Cross-border trade, intra-firm trade and affiliate sales in US services; royalties and licence fees	488

Boxes

4.1	The eclectic (OLI) paradigm of international production	101
9.1	Some reasons for concluding cross-border strategic business alliances	283
10.1	Host country determinants of FDI	325
15.1	Selected restrictive business practices addressed by competition law	546
16.1	Types of linkage benefits	574
17.1	Methods of transfer pricing	631
18.1	The OECD Guidelines for Multinational Enterprises	655
18.2	The principles of the UN Global Compact	656
19.1	Types of investment incentives	682
19.2	Categories of performance requirements	685