INTRODUCTION

Lorraine Eden

Since 1991 is the twentieth anniversary of *Millennium* and Raymond Vernon's *Sovereignty at Bay*, this special section devoted to the changing relationships between states and multinational enterprises (MNEs) is a felicitous opportunity to celebrate two important events in international studies. The articles in this section deal with changing state-MNE relationships, both co-operative and conflicting, over the 1980s and the research and policy agendas these imply for the 1990s. As Vernon says in his introductory piece, "[MNEs and states are] two systems ... each legitimated by popular consent, each potentially useful to the other, yet each containing features antagonistic to the other."

Four themes emerge clearly in this section. The first theme, co-operation versus confrontation in MNE-state relations, traces its origins to *Sovereignty at Bay*. Some authors see inescapable tensions in future MNE-state relations. Vernon argues that points of friction, such as defining the rights and assessing the domestic obligations of increasingly globalised businesses, will persist. Lall sees the failure of MNEs to develop indigenous technology within developing countries as causing new state-MNE tensions. Vernon calls for multilateral approaches to ease conflicts; Lall sees the need for more efficient, but still interventionist, state controls to reduce market failures caused by foreign-owned firms.

On the other hand, Dunning and Strange suggest a move to more co-operative relations. Dunning sees a symbiotic relationship between governments, hierarchies and markets emerging in the 1990s. Strange contends that states and firms must better understand the web of international bargains that links them – each needs to have more respect for the other – and, in contrast to Lall, she argues that saddling MNEs with controls will damage the long run health of developing countries. Acheson and Maule assert that confrontation and co-operation both characterize MNE-state relations in the international film industry since states subsidise propaganda films and measures to counteract fears of US cultural hegemony.

The second theme is the influence of structural changes on MNE-state relations. Strange argues that the underlying production, technology and financial structures of the economy are changing, altering MNE location strategies and state responses, and pressuring firms and states to negotiate with one another. McMillan shows how structural changes in Eastern Europe are affecting the location of MNE investments. Kaplinski asserts that post-Fordism is causing changes in the economics and politics of location, creating new alternative organisational forms to the MNE, reducing the need for Least Developing

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Countries (LDC) export platforms, and giving new impetus to market-oriented foreign investment. Dunning and Eden argue that contractual complexity and network relationships for research and development are causing new organisational structures of multinationals; however, Acheson and Maule note that these networks have been present from the outset in the film industry.

The third theme is the call for more interdisciplinary work on MNE-state relations. Eden and Strange argue that the firm must be brought back into international relations theory. Scholars have for too long treated the MNE as a black box, something to be ignored or treated superficially. Strange declares that international relations theorists are "Flat Earthers", pretending that inter-state relations are the only ones that matter. She suggests that solving puzzles in international relations requires putting the MNE and the state at the center of theory. Eden contends that a clearer focus on the firm as an institutional actor with goals, strategies and structures is required.

Casson, on the other hand, argues that developing an integrated socio-cultural theory of the MNE should be on the top of the research agenda for the 1990s. Broadening the theory of the MNE in international business studies to incorporate insights from other social sciences is key to understanding differences in organizational performance across countries. Eden, Strange and Dunning all suggest that international business has treated the state as a black box, much in the same way as international relations has ignored the firm, and that more attention must be paid to politics within the theory of the MNE.

The last theme is the contributions Raymond Vernon has made to the study of multinationals and MNE-state relations. *Sovereignty at Bay* contains three important ideas that have dominated the treatment of MNEs in international relations theory: sovereignty at bay, the product life cycle and the obsolescing bargain. Ten scholars, all trained as economists, have – jokes about economists to the contrary – reached one conclusion – and in a journal normally devoted to political scientists: the importance of Vernon's work on multinationals given the need to bring the firm back into international relations theory.

In conclusion, these articles offer a rich menu of theory and policy options that need to be pursued as we attempt to better understand and manage state-multinational relations in the 1990s – a deserved celebration of two important anniversaries in international relations.

Bringing the Firm Back In: Multinationals in International Political Economy

Lorraine Eden

> The state is based on the concepts of territoriality, loyalty, and exclusivity, and it possesses a monopoly of the legitimate use of force...[T]he market is based on the concepts of functional integration, contractual relationships, and expanding interdependence of buyers and sellers...The tension between these two fundamentally different ways of ordering human relationships has profoundly shaped the course of modern history and constitutes the crucial problem in the study of political economy.[1]

INTRODUCTION

International political economy (IPE) is a focus of inquiry that seeks to explain international politico-economic relations and how they affect the global systems of production, exchange and distribution.[2] IPE sees the nation-state as the key actor in the global system, the organiser of the international political order. The state is treated as the alternative to the market which is seen as the organiser of economic relations. As the above quote shows, much of the IPE literature has concentrated on this conflict between 'states and markets'; indeed, Susan Strange has written a book with this very title.[3]

The concept of states versus markets is, however, flawed because the market is a structure, not an actor, and hence a poor counterpoint to the state. The appropriate counterpoint is the multinational enterprise (MNE), the key nonstate actor dominating both domestic and international markets. The largest 600 MNEs now generate worldwide sales of over one billion dollars each and together produce one-quarter of world gross domestic product.[4] The crucial problem in the study of political economy as we move into the twenty-first century is the tension between states and multinationals, not states and markets. It is time to bring the firm, *i.e.*, the multinational enterprise, back into IPE.

Multinationals are studied in the IPE literature; however, their presence is often implicit rather than explicit, or segregated from other questions.[5] Some IPE perspectives devote more attention to multinationals than others (*e.g.*, dependency versus regime theories). Indeed, the terms used by various authors to identify this international organisational structure (*e.g.*, multinational enterprise (MNE), multinational corporation (MNC) and transnational corporation (TNC)) often reveal the perceptions of multinationals within different paradigms or disciplines.[6]

© Millennium Journal of International Studies, 1991.ISSN 0305–8298. Vol. 20, No. 2 pp. 197–224

However identified, all IPE perspectives need to take account of the 'new style MNEs' of the 1990s in thinking about global issues and problems. These new style firms, or global corporations, operate with worldwide strategies, investments and sales, making them the chief vehicle for increasing interdependence among national economies.[7] IPE must come to terms with the globalisation of markets through multinational enterprises.

The purpose of this paper is to further the process of 'bringing the firm back into IPE'. The paper first reviews the treatment of multinationals in various strands of the literature, arguing that IPE traditionally focuses on five faces or images of the MNE: the product life cycle, sovereignty at bay, the law of uneven development, the obsolescing bargain, and the changing international division of labour. A review of these faces is followed by a summary of current thinking in the international business studies (IBS) literature on global multinationals, focusing on the Ownership-Location-Internalisation (OLI) paradigm, the international value chain, and strategic management of MNEs.[8] The last section of the paper deals with implications of multinationals for the concept of states versus markets, and for the five faces multinationals traditionally assumed in IPE. The paper concludes that a clearer focus on the MNE as an institutional actor with goals, strategies and structures is necessary for a better understanding of state-MNE relations in the 1990s.

FACES OF THE MULTINATIONAL ENTERPRISE IN IPE

Each of the major perspectives in IPE – liberalism, nationalism and Marxism – has a different view of the MNE.[9] The liberal perspective views multinationals as an integrating force in the world economy. Because MNEs transfer resources between countries according to comparative advantage, they are a force for progress, increasing wealth and lessening income inequalities between developed and developing countries. MNEs are seen by liberals as generally beneficial in their role as promoters of a more integrated world order, offsetting the mercantilist tendencies of nation-states. The nationalist and neomercantilist perspectives perceive MNEs as potential threats to the power of the state. Because MNEs respond to global profit motives, conflict between state goals and MNE goals is inevitable. MNEs need to be regulated, both by national governments and internationally, according to the nationalist perspective, to ensure that state autonomy and sovereignty are maintained. The important question is how to manage multinationals to ensure that they enhance domestic industrial capacity, national sovereignty and state security. Lastly, the Marxist critiques, particularly the Latin American dependency writings, view MNEs as oligopolistic transnational capitalists that systemically exploit and promote underdevelopment in the periphery and semiperiphery. MNEs act at the behest of their home states, enhancing imperialism and permanently creating global income inequalities. Radical theorists argue that MNEs make alliances with transnational elites such as domestic capitalists in the semiperiphery, but that such development is stunted because it remains dependent on relations with the core.

While IPE perspectives have different underlying views of the MNE, five faces or images are covered in all the paradigms and in the major IPE texts.[10] Three of these faces (the product life cycle, sovereignty at bay and the obsolescing bargain) were developed by Raymond Vernon;[11] the other two images (the law of uneven development and the international division of labour) by Stephen Hymer.[12] The first three faces of the MNE as outlined above fall within mainstream perspectives in IPE (liberal, nationalist); the latter faces within the radical IPE approach (Marxist). The first three faces take the world order as it exists and try to make the state-MNE relationship work more smoothly; they are thus exercises in problem-solving theory. The next two faces take an historical approach, appraising the changing role of MNEs and the need to change the existing world order, and are therefore exercises in critical theory.[13] Two of the faces (*i.e.*, sovereignty at bay and the obsolescing bargain) explicitly focus on the conflict between multinationals and states, and therefore are more attentive to the MNE as an actor within markets than most of the IPE literature. A brief summary of the five faces of MNEs in IPE follows.

The Product Life Cycle Model

Products have a life cycle where they move from being new to mature to obsolete. New products need frequent product and process changes in their pre-paradigm stage. As a result the production process is unstandardised, labour intensive and high cost, and needs to take place close to consumers. As product design matures, production becomes more capital intensive. Eventually significant economies of scale are achieved through mass production of standardised products.

The product cycle model as developed by Vernon explains the rise of MNEs from particular home countries in terms of the life cycle of the manufactured goods these firms produce. New products, developed first in the US, were exported to Europe once product designs had stabilised.[14] As the technology matured and foreign demand increased, US firms established branch plants to supply foreign demand and the profits from overseas production were used to generate new products. Vernon later revised the model to argue that foreign direct investment (FDI) was caused by the desire of oligopolistic MNEs to erect barriers to entry in foreign markets in order to maintain their market share.[15] In the later version, MNEs respond to local demands based on incomes and factor scarcities (*e.g.*, energy in Japan). Once the oligopoly becomes mature, the members use economies of scale in production, marketing and research and development as entry barriers to new firms. The oligopolists match each other move for move, generating a bunching of FDI. Eventually the oligopoly becomes senescent, the barriers fail to deter entry and cost competitiveness becomes key to survival. In this phase, MNEs shift production to the lowest cost locations and export products back to the home countries.

The product cycle model has lost its significance with the end of the technological gap and the narrowing of per capita income differentials within the Triad (*i.e.*, the US, Japan and the European Community). However, the model is still used to point out the essential market seeking character of FDI, the importance of technology in MNE activities, the flow of (albeit mature) technology from the parent firm to its subsidiaries, the rents that MNEs earn on overseas sales and production, and the substitutability between FDI and trade.

Sovereignty at Bay

The phrase 'sovereignty at bay' has become a metaphor for the eventual decline of the nation-state in relation to MNEs that are above state control.[16] However, this was not the message of the book. As Vernon wryly notes, 'practically every reader remembers the title of the book; but scarcely anyone will accurately recall its context...the label (but not the contents) became generic'.[17] The original argument was that MNEs were used by home governments to extend their jurisdictional reach beyond their territorial limits; the US in particular practised this extraterritoriality.[18] Host governments also attempted to restrain and direct foreign subsidiaries located within their borders. The conflict between the social goals of states and the profit goals of MNEs generated significant tensions that were exacerbated by the shrinkage in international space, the narrowing gap in consumer tastes and the higher levels of international trade and capital flows. Vernon argued that nation-states would have to take action to constrain MNEs, facing the inherent conflicts in their 'double personality'. This would involve sorting out the problems of overlapping jurisdictions, double taxation, and their innate global reach.

In a later assessment of the sovereignty at bay theory, Vernon concludes that the three assumptions underlying the theory remain accurate: (1) host states want the benefits FDI can bring; (2) the policies of foreign subsidiaries reflect the overall strategic interests of the MNE; and (3) MNEs can serve as a conduit through which one state attempts to affect other states. While the 1971 book failed to predict the vast wave of nationalisations in the 1970s by Least Developing Country (LDC) governments, the problem of multiple jurisdiction still remains, and in fact has worsened since the 'number of players and intensity of the game' has risen.[19]

The question of whether states or MNEs are 'at bay' remains unsettled. Vernon and Spar argue that, although the 1980s were a relatively peaceful period of MNE-state relations, the problem of overlapping jurisdictions and states' capacities to monitor and control MNEs still exist.[20] As long as the United States insists on its right to regulate affiliates of US multinationals, Vernon and Spar foresee continued tensions. Moran, on the other hand, concludes from the case studies in his book that multinationals are at bay, not states.[21] State demands on the firms within their borders are escalating, paralysing MNEs caught between competing jurisdictions.

The Obsolescing Bargain

Kobrin calls the obsolescing bargain model the 'currently accepted paradigm of Host Country-MNC relations in international political economy'.[22] The model was developed by Vernon and has spawned an enormous literature.[23] These publications are among the best studies of MNEs in international political economy since they usually contain extensive analyses of particular industries, MNE global investment strategies, and the constraints these pose for state development policies.

The bargaining-power model explains the development of host country-MNE relations over time as a function of the goals, resources and constraints of each party. The model assumes that: (1) each party possesses assets valuable to the other; (2) each party has the ability to withhold these assets, thus giving it potential bargaining power with regard to the other; (3) each party is constrained in its exercise of this power; (4) the party with the larger actual bargaining power gains a larger share of the benefits; and (5) the game is positive sum so that both parties can win absolutely, although only one can win in relative terms.

The key argument of the model is that MNE-host state relations are dynamic and evolve over time. Prior to the entry of the MNE, the host government is assumed to be in a weak bargaining position. Given the uncertainty of investing in a new country, and the number of options open to the MNE, the state must offer concessions in order to attract entry. However, once the investment has been made, bargaining power shifts towards the host state. Over time, the uncertainty dissipates; the MNE commits more and more immobile resources that can be used as hostages; and the host country becomes less dependent on the MNE for capital, technology and access to markets as the FDI resource package diffuses throughout the economy. Thus the host state is likely to insist on renegotiating the bargain to capture more of the benefits. The MNE must either keep the host country dependent on it for new technology, products or access to export markets, give in to state demands, or exit. The obsolescing bargain model has been applied to many extractive (mining, petroleum) and manufacturing (autos, computers) industries. Kobrin concludes that manufacturing is not subject to the structurally based obsolescence of depletable resource industries.[24] Where the foreign subsidiary is part of a globalised industry or where technology is rapidly changing, the bargain may not obsolesce, and so the model may be inappropriate. Moran, however, notes that competition among MNEs for host country markets can strengthen the position of LDC governments, and concludes more optimistically that LDC states can use FDI to improve their developmental prospects over time.[25]

The Law of Uneven Development

The first of the critical (in Cox's sense) faces of the MNE is developed by Hymer who posits two laws of monopoly capitalism.[26] The first, the law of increasing firm size, documents the growth in size and complexity as the organisational structures of firms changed from local workshops to MNEs. He argued that MNEs create a spatial division of labour across the globe that corresponds to the vertical division of labour within the MNE. The corporate hierarchy becomes divided geographically into three divisions: top management in the largest core cities, white collar co-ordination in smaller core cities, and blue collar production distributed globally. As a result, the core becomes progressively more developed and the periphery less developed. This provides the second law, the law of uneven development. The oligopolistic behaviour of MNEs and their large size further exacerbates uneven development through tax avoidance, erosion of state power, and footloose production sites.

Hymer's uneven development argument is part of a broader dependency perspective that sees multinationals as the agent of external process that produce underdevelopment in the periphery.[27] One recent extension of Hymer's international class hierarchy is made by Cox who argues that as production and exchange became more internationalised in the 1970s, social forces mobilised and a transnational historic bloc emerged.[28] The members of this bloc – MNEs, multinational banks and internationalist institutions – are linked by transnational forces and have a shared ideology. Whereas Hymer focuses on a three level pyramid of production, Cox sees world classes being formed with the highest world class being a managerial class made up of labour and capitalists who work in the transnational historic bloc.

The Changing International Division of Labour

The division of labour has been a subject of inquiry since Adam Smith first discussed the advantages of specialisation in a pin factory.[29] Throughout the twentieth century the primary method of production has been Fordism.[30] The Fordist production process is based on the increasing division of tasks, the separation of skilled from unskilled labour, the mechanisation of skilled tasks, Taylorist methods of control, the assembly line and just-in-case inventories. Fordism is a capital intensive system, designed to achieve economies of scale through mass production of standardised products.

Hymer was the first to integrate the concept of the MNE with the concept of Fordist production to develop a theory of the international division of labour (IDL).[31] The IDL had four components, according to Hymer: firm expansion (the law of increasing firm size), hierarchy (the creation of a world hierarchy of classes), class conflict (conflict between the international managerial class and domestic classes), and the internationalisation of production (the movement of capital abroad through foreign direct investment). Throughout the 1860-1970 period, MNEs went abroad to gain access to raw materials in the periphery, exporting these materials for processing in the core. This old international division of labour was perceived by both Marxist and *dependency* scholars to be exploitative of the South.

In the 1970s, however, the type of FDI exported to the periphery states began to change. US multinationals, following the logic of the product cycle, began to search for cheaper labour sites and to move the production of mature technology products to developing countries. This new IDL, or NIDL, characterised the spread of FDI to the periphery from the early 1970s to the present. Asian and Latin American developing countries encouraged the inflow of this new type of foreign investment by setting up export processing zones with cheap, docile labour forces, tax incentives and minimal regulations. Most recently, the NIDL appears to be changing again (the new NIDL!) as MNEs adopt knowledge intensive methods of production, reducing the labour and materials content of production processes and outputs. This shift, referred to as post-Fordism, systemofacture or lean production, is reflected in the adoption by MNEs of new information technology products and Japanese flexible production processes.

In summary, the IPE literature views MNEs as oligopolistic firms that control and organise production facilities in two or more countries. The firms are usually in manufacturing or resource industries, have parents headquartered in the US or Western Europe, and expand abroad through wholly owned foreign affiliates. MNE relationships with their home countries are usually assumed to be amicable, whereas host country relationships are more adversarial. Developing countries are used by multinationals as sources of raw material and/or cheap labour inputs. FDI provides a package of capital, technology and management skills to host countries; however, FDI also brings a loss of sovereignty and the ability of home states to influence host development. In this writer's opinion, the political economy model that best captured host country-multinational relationships is the obsolescing bargain model. The analyst's view of the future of MNE-state relations depends on the IPE perspective that is adopted: there may be a sovereignty at bay world where MNEs dominate states, a mercantilist version where states dominate, or a dependency version where the periphery remains permanently dependent on the transnational capital from core states.

Let us now turn to the current thinking about global MNEs in the international business studies (IBS) literature and see how this literature differs from the five faces of the MNE in international political economy.

MULTINATIONALS IN INTERNATIONAL BUSINESS STUDIES

Within international business studies (IBS), research on multinationals falls into three time periods: the 1950s to mid-1970s, the mid-1970s to mid-1980s and the mid-1980s onwards.[32] The focus of inquiry has shifted from a macro approach to FDI, to an examination of the firm as an institution, to a focus on the value adding activities of MNEs. Regardless of the focus, the perspectives all fall broadly within what IPE scholars would define as liberalism. All are exercises in problem solving and little attempt is made to examine MNEs from a critical perspective. While the work of neomarxists such as Hymer are known to IBS scholars, only contributions in a liberal context are carried over to IBS.[33] There are crossovers between IPE and IBS. Vernon's contributions are well known; the product cycle, sovereignty at bay and the obsolescing bargain are discussed in the IBS textbooks. Similarly, the obsolescing bargain is considered by IBS scholars, as well as by IPE scholars, to characterise host country-MNE relations. Most IPE scholars are aware of John Dunning's work on multinationals, and his explanation for the growth of MNEs, the OLI (ownership, location and internalisation) paradigm, is covered in several IPE texts.[34] The existence of research centres on MNEs, *e.g.*, Vernon and his colleagues at Harvard and Dunning and his colleagues at the University of Reading, has facilitated interchange between scholars from different disciplines. The UN Centre on Transnational Corporations (UNCTC) has also encouraged this. Kindleberger's work on FDI and Chandler's work on the business history of MNEs are known to both groups. [35]

However, in spite of these crossovers it is clear that the IBS focus on multinationals differs from that of the IPE scholars, with IPE scholars generally taking the more critical view. In addition, the IPE literature, with the exception of recent work on the international division of labour, lags behind IBS research on global multinationals. The outline of current IBS research given below has not crossed over into mainstream IPE thinking on multinationals. The complexity of international value-adding activities of MNEs in the 1990s and its implications for states and markets remain to be explored.

Explaining MNEs: The OLI Paradigm

International business studies has taken three approaches to the study of the MNE. Initially the IBS literature took a macro approach, examining issues such as the substitutability of FDI and international trade, the effects of FDI on host countries, the composition and location of FDI, and the US as the largest home country.[36] While various definitions of the MNE existed, the simplest was that MNEs were enterprises that owned and managed production establishments in more than one country. In the mid-1970s the focus shifted from looking at the act of FDI to examining the institution making the investments abroad.[37] The MNE is now seen as an institutional structure that co-ordinates activities across borders. While there are many individual theories about the MNE, the generally accepted paradigm containing the various theories for understanding the existence, patterns and growth of the MNE is the eclectic or OLI paradigm developed by John Dunning.[38]

The OLI paradigm argues that MNEs form and grow because they possess three sets of advantages relative to other firms. These advantages of ownership, locational and internalisation are sometimes referred to as the OLI tripod. All three sets of advantages must be taken into account simultaneously in order to explain the existence of multinationals and the reasons for their growth and success in certain sectors or countries. These advantages can also be used to analyze MNE decisions about locating, expanding or divesting abroad.[39]

Since the mid-1980s there has been another shift, this time to thinking about the international value adding or production activities of the MNE rather than the firm's institutional structure. This shift in focus to international production by MNEs has several motives. First, the work done by Michael Porter and other IBS scholars in the United States on strategic management of MNEs, along with new concepts such as the value chain (more on this below), have infiltrated the OLI model. Second, there has been an enormous increase, since the early 1980s, both in crossborder alliances between firms in the same industry within the Triad economies and in alternative contractual arrangements such as subcontracting in the LDCs. The focus on the firm as a single entity has therefore been broadened to examine clusters of firms and nonequity investment relationships.[40] Third, the increasing use by states of aggressive industrial policies in high-technology sectors designed to increase national competitiveness has focused attention on the role states can play in engineering long run competitive advantage.[41] Fourth, the technological revolution that has been occurring as information technology and biotechnology transform production and distribution methods has generated more attention to crossborder technology, service and data flows.[42] Fifth, the move of Japanese firms from exporting to setting-up production plants in the United States and Europe has drawn attention to process technology changes (*e.g.*, just-in-time, flexible automation) that are affecting the value adding strategies of MNEs.[43] Sixth, the rapid rise of MNEs in services such as banking, business services and retailing has shifted attention away from manufacturing and natural resource multinationals and toward explaining international production of services. All of these factors have influenced the definition of an MNE in the international business studies literature. Dunning's new definition for a global MNE is:

> an orchestrator of production and transactions within a cluster, or network, of cross border internal and external relationships, which may or may not involve equity investment, but which are intended to serve its global interest.[44]

These new style MNEs have ownership, locational and internalisation advantages which explain their growth and success in international markets.

1. Ownership Advantages

MNEs have ownership advantages on which they can earn rents in foreign locations and which allow MNEs to overcome the cost disadvantage of producing in foreign markets. These advantages are usually intangible, based either on knowledge or oligopoly, and can be transferred relatively costlessly within the MNE. Knowledge advantages include product and process innovations, marketing and management skills, patents, brand names, *etc*.; whereas oligopolistic advantages include economies of scale and scope, and privileged access to various resources. Ownership advantages arise from one of three sources: (1) the firm's size and access to markets, resources and/or intangibles; (2) the firm's ability to co-ordinate complementary activities (*e.g.*, manufacturing and distribution); and (3) the 'global scanning' ability, which allows MNEs to exploit differences between countries. These core competencies provide potential access to a wide variety of markets, contribute significantly to customer satisfaction, and are difficult to imitate.[45] However, they are not fixed for the firm; ownership advantages require identification and continuous investment to prevent their dissipation and/or obsolescence. The advantages can be lost if firms do not understand and invest sufficiently and effectively in their areas of competency. Some of the most recent work on MNEs is now turning to this problem, focusing on issues such as: (1) the core competencies of various MNEs in the same industrial sector and why they vary across countries[46]; (2) the underlying structures which states can provide to help generate successful firms[47]; (3) how technological advantages can be generated, appropriated and sustained over time[48]; (4) the role of entrepreneurial culture as an advantage[49]; and (5) whether firm-specific advantages are necessary to explain the existence of MNEs.[50]

2. Internalisation Advantages

Internalisation advantages arise from exploiting the differences among exogenous imperfections faced by MNEs in external markets. Exogenous imperfections are of two types. The first group are inherent to certain types of markets, arising, for example, from the public good aspect of knowledge, from uncertainty and from the existence of transactions costs in all external markets. Through using markets internal to the firm, the MNE can reduce uncertainty and transactions costs and generate knowledge more efficiently. The second type are state-generated imperfections (such as tariffs, foreign exchange controls and subsidies). State policies in the internalisation literature are considered as inefficient policies to be arbitraged by MNEs, implying that internalisation is a welfare improving activity. MNEs with global horizons are thus seen as efficient actors, offsetting the inefficient activities of states with their national horizons (a very different perspective from IPE scholars!). Internalisation theory therefore predicts that hierarchy (the vertically or horizontally integrated firm) is a better method of organising transactions than the market (trade between unrelated firms) whenever markets are imperfect. By replacing an external or missing external market with an internal, hierarchical control structure, the impact of market failures can be reduced.

Internalisation advantages can also be generated by exploiting oligopolistic rivalry among competing MNEs, when the firms themselves create or worsen market defects.[51] Oligopolistic imperfections include exertion of monopoly power, cross-subsidisation of markets and opportunistic exploitation of suppliers or buyers. IPE scholars have tended to emphasise endogenous imperfections created by MNEs as international oligopolists, starting with Hymer's laws of uneven development and increasing firm size. Most internalisation theorists, however, have de-emphasised this aspect, focusing on MNEs as efficient internalisers of market imperfections.[52] Some IBS scholars do take exception, arguing that internalisation is not just a passive response to market failure but also one of the rules of the game for firms trying to avoid risks by creating barriers to entry for competitors.[53]

Internalisation helps prevent the dissipation of, and increase the rents from, the core competencies of the MNE. The early internalisation literature of the late 1970s and early 1980s assumed that it would be more profitable for MNEs to earn rents on their ownership advantages and service foreign markets through wholly owned subsidiaries than by exporting or licensing to foreign markets. More recent work has extended the OLI model to other arrangements such as joint ventures and subcontracting, and has shown that FDI is not always the most effective choice for the MNE.[54] Firms face a wide range of options in contractual arrangement for transacting goods, services and factors across borders. The range extends from the polar case of markets – buying or selling to unrelated firms at arm's length in external markets (this is considered low control, but has a high risk of dissipation of ownership advantages) – to the polar case of hierarchies – all transactions take place between wholly owned affiliates in an internal market where the firms are related and not at arm's length; (this is a high control, low risk option).[55] There are a variety of contractual arrangement options in between, offering varying amounts of control and risk to the MNE. Internalisation theory predicts that MNEs compare the costs and benefits of alternative modes and select the most profitable.[56]

Contractual relationships within the MNE have varied historically. Until the mid-1970s most MNEs preferred the wholly-owned subsidiary; more recently MNEs have increasingly moved to nonequity contractual arrangements. State strategies for import substituting industrialisation in the 1950s and 1960s encouraged MNEs to choose the wholly-owned subsidiary as a vehicle for entry into developing countries. However, the rise in host regulations and wave of nationalisations in the 1970s encouraged MNEs to switch to nonequity investments. Low interest rates and easy bank loans also facilitated this move. Nonconventional MNEs and new MNEs without ready access to financial capital also often chose what we can call the foreign minority investment (FMI) route in preference to FDI. The situation changed in the early 1980s as real interest rates rose and bank lending to LDCs dried up. Given the shortage of FDI inflows into developing countries, many have been forced to liberalise their investment policies to attract capital. Structural adjustment policies endorsed by the World Bank and the International Monetary Fund are also encouraging this policy change. While developing countries are now more willing to allow inflows of FDI, multinationals have come to realise that foreign minority investments have their own advantages. MNEs can earn rents on their ownership advantages without owning or financing investments in developing countries by concentrating on supplying technology, marketing and management skills while the host country partner puts up the equity capital and does the actual production. Thus more of the risk but also more of the potential gains are shifted to the host country. Oman notes that small or latecomer MNEs (*e.g.* from the four Asian tigers) use minority investment more than the FDI route, and that even the largest multinationals will use this strategy in protected or isolated markets.[57]

3. Locational Advantages

The third advantage possessed by MNEs is their access to factors of production in foreign countries, *i.e.*, locational or country-specific advantages. Ownership advantages must be used in combination with immobile factors in foreign countries to induce foreign production. These country specific advantages determine which countries are hosts to MNE foreign production. Locational advantages can be broken into three categories: economic, social and political factors, all of which can be expected to change over time. Country risk analysis is used by MNEs and multinational banks to estimate the advantages of different locations. Economic advantages are based on a country's factor endowments of labour, capital, technology, management skills and natural resources. In addition, market size and transportation and communications can make a host location more or less economically attractive. Noneconomic or social advantages include the psychic distance between countries in terms of language, culture, ethnicity, and business customs. Political advantages include general host government attitudes towards foreign MNEs and specific policies that affect FDI and production such as trade barriers and investment regulations. Foreign production is expected to move to countries that are geographically close and have similar incomes and tastes to the home country, and have good factor endowments and low factor costs.[58]

Dunning has recently argued that IBS scholars need to pay more attention to the role of locational advantages as underlying factors affecting the core competencies of the MNE.[59] In fact, the impact of political factors on all three elements of the OLI tripod has been underestimated. The lack of coverage of MNEs in the IPE literature is matched by the lack of coverage of the state in international business.[60] Some work has been started in this area. Ostry focuses specifically on the political economy of policy making in the United States, the European Community and Japan, looking at the role MNEs have played in the Uruguay Round of the GATT and in the development of national policies for high-technology industries.[61] Rugman and Verbeke examine the interactions between government trade policies and MNEs using a series of two-by-two matrices to characterise firm strategies.[62]

The OLI paradigm traditionally has focused on the why, how and where questions: Why do firms go abroad? How do they choose modes of entry? Where do they go? The management of these firms once abroad received less attention. In this regard, the American strategic management literature, based on the concept of the value chain, is an essential prerequisite to understanding the new style MNEs of the 1990s.

Strategic Management and the International Value Chain

The theory of strategic management was developed initially in the United States.[63] Strategic management theorists model firms engaging in a range of activities called the value chain. The value chain consists of primary activities (functions involved in the physical creation of the product such as extraction, processing, assembly, distribution, sales and service) and support activities (functions that provide the infrastructure necessary to support the primary activities such as research and development, finance, marketing). Each firm must decide the shape and length of its value chain, *i.e.*, the number of products it produces, the number of value adding activities in which it engages, and the number of geographical areas in which these activities take place. These decisions depend on the firm's overall management strategy. The choice of overall strategy for the MNE affects its choice of structure and location.

The international value chain concept recognises that MNEs have additional strategies that are not available to domestic firms. MNEs can locate stages of the value chain in different countries, or have several plants at the same stage of the value chain in different locations. MNEs can adopt differing positions depending on the country location and the position of the affiliate within the MNE. According to Porter global strategies for MNEs fall into one of four categories: global cost leadership or differentiation (selling a wide range of products globally); global segmentation (selling a narrow range of products worldwide or, alternatively, a wide range in a subset of countries); protected markets (seeking shelter from foreign competition markets are protected by host governments); and national responsiveness (developing products that meet local needs in particular countries).[64] MNEs can adopt a wider range of strategies than can domestic firms by taking advantage of economic, political, geographic, social and cultural differences among countries.[65]

The combination of the OLI paradigm and the value chain thus provides a simple explanation for the existence of vertically and horizontally integrated MNEs. A horizontally integrated MNE produces the same product or product line (*i.e.*, at the same stage of the value chain) in two or more plants located in different countries. A basic motivation for horizontal integration is the additional rents in the foreign location that can be earned on the MNE's firm- specific assets. Usually horizontal integration occurs at the final assembly and sales stages for market-driven manufacturing MNEs as states demand nationally responsive MNEs or MNEs seek shelter behind protectionist barriers erected by states. A vertically integrated MNE, on the other hand, controls and co-ordinates two or more different value adding activities such as resource processing and manufacturing. The basic motivation for vertical integration is the avoidance of exogenous transactions and governmental costs associated with external markets. Uncertainty and incomplete futures markets combine to raise barriers to contract making between unrelated firms, particularly in natural resource industries and industries where quality control is essential.[66] Government barriers can be avoided through such techniques as transfer pricing of intrafirm trade and financial flows, and leading and lagging of payments.[67]

1. Managerial Structures of Global Multinationals

The managerial structure of a firm describes its executive lines of authority and responsibility, lines of communication, information flows and how they are channelled and processed.[68] There are many kinds of international managerial structures available to MNEs.[69] In the 1970s most American multinationals followed nationally responsive or shelter strategies based on supplying products to segmented national markets. MNEs decentralised day-to-day operations to national subsidiaries, but used centralised service staffs for headquarters functions such as financial planning and policymaking.[70] Hymer's vision of the three level pyramid of decision making within the MNE was an accurate characterisation of the command and control structure of most MNEs.

Information technology is changing this, however.[71] Telecommunications networks can be used to link MNE affiliates worldwide, providing centralised corporate data bases for use by both headquarters and affiliates. This improves centralised control by the parent firm and creates new information channels within the organisation. The parent firm can monitor foreign operations more effectively with fewer middle managers to analyse and relay information. In addition, information technology is homogenising tastes through increasing the mobility of consumers and information. International brand recognition (*e.g.*, Sony, Gucci) is increasing. The advantages of moving to a global cost leadership or differentiation strategy are encouraging the integration of local and international planning. The more integrated the structure, the less the local autonomy of the affiliate and the greater the centralisation and co-ordination functions of the parent. MNEs are moving to organisational structures that more effectively promote global planning objectives. As a result, the tension between the national objectives of states, both home and host governments and the global goals of MNEs is more likely to increase in the 1990s.

2. Locational Choices of Global Multinationals

In the general OLI framework outlined above, the ownership advantages of the multinational enterprise give it advantages over domestic firms in going abroad. The internalisation advantages imply that the MNE can best profit from its advantages through a hierarchy of vertical and horizontal intrafirm equity and nonequity linkages. However, neither of these two factors determines where the MNE invests. Location, like structure, tends to follow strategy, *i.e.*, the particular location selected by the MNE depends on the strategic role that the affiliate is to play within the multinational. MNEs go abroad for many reasons: gaining access to low-cost foreign inputs such as natural resources and labour, being close to foreign markets, earning rents on ownership advantages, and pre-empting competition by rival firms. The list can be reduced to three general categories that influence plant location: securing natural resources, reducing costs, and gaining access to foreign markets. Locational decisions determine initial FDI and subsequent trade patterns; both horizontal and vertical FDI have resulted in substantial growth in intrafirm trade flows in the post-war period.[71] Locational advantages are the key to determining which countries become host countries for the MNE, and depend on whether the purpose of the investment is resource seeking, cost reduction, or market access. In setting up a foreign plant, global MNEs can choose among several different types of locational structures. Given the basic purpose behind the investment, some structures are more likely than others. Since states often want to influence the nature of the foreign investments offered by an MNE, it is clearly crucial for states to know what the underlying purpose of the investment is. Strategies designed to encourage more local production of R&D may be useless if the foreign factory has been set up simply to take advantage of low labour costs. The various locational structures available to the MNE fall into three categories corresponding to the three strategies, resource seeking, cost reducing and market access. These are outlined below and illustrated in Figure 1:[72]

Resource seeking strategic investments:
Extractors secure natural resources essential to the production process. The key factor driving location is the need to be close to raw materials. *Processors* turn raw materials into fabricated materials through refineries, smelters and fabricators. If the weight-to-value ratio is high, economies of scale at the two stages similar, and foreign tariffs on processed imports low, extracting and processing may occur in the same plant.

Cost reducing strategic investments:
Offshores use cheap local inputs such as low wage labour to produce components or assemble inputs which are then re-exported to the MNE for further assembly. Many investments in export processing zones are of this type. As wage rates rise, footloose offshores move from country to country searching for lower cost sites. *Source factories* provide access to low-cost inputs, but also carry responsibility for developing and producing specific components for the MNE. Sources are globally rationalised plants where the factory produces subcomponents for final assembly and sale elsewhere. These factories are tightly integrated into MNE networks since output is sold within the MNE.[73]

Market access strategic investments:

Importers facilitate MNE sales in a host country by providing marketing, sales, service and warehousing facilities. Most Japanese early investments in Europe and North America were importer factories. *Local servers* are also designed to service local markets, but they normally assemble subcomponents for domestic sale (*e.g.*, bottling plants, drug packaging). Where state regulations require MNEs to maintain a local presence, local servers are normally chosen as the choice of location. *Focused factories* are globally rationalised firms that produce one or two product lines in mass production runs for final sale in local and foreign markets, exchanging these product lines for those produced of other focused factories within the MNE family. They are relatively autonomous and nationally responsive units with some process technology facility.

Miniature replicas are plants that assemble and sell a full range of products, similar to the parent in the local market, generally due to a shelter strategy adopted by the MNE in response to host country trade barriers. Miniature replicas are likely to be costly, inefficient plants in domestic markets are small. *Lead factories* are equal partners with the parent firm in developing new technology and products for global markets. Lead factories are placed in strategic locations within the Triad and are insiders in each of their major locations. *Outposts* are R&D intensive investments set up by MNEs from one of the Triad countries in the other Triad markets to source knowledge worldwide and to act as a window on technology developments. MNEs are now moving abroad to improve access to technology and share research and development costs with strategic partners such as universities, governments and rival firms. Programmes such as ESPRIT in Europe are encouraging the formation of outposts.

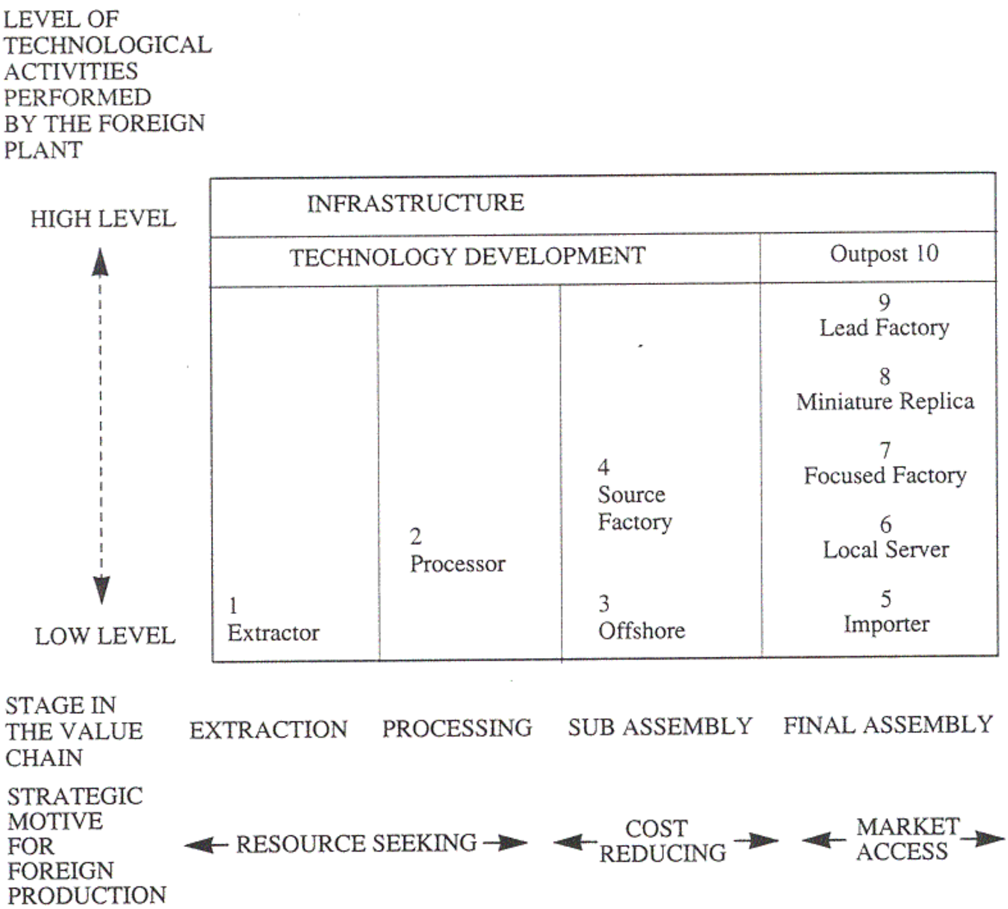
Figure 1 illustrates both the concept of the MNE's value chain and the range of strategic locational choices available to the firm. Each investment is placed in the appropriate part of the MNE's value chain depending on whether the general motivation for foreign production is resource seeking, cost reduction or market access. The higher the vertical placement, the greater the amount of technological innovation expected from the factory.

In summary, each MNE, depending on the length of its value chain and the nature of the industries in which it competes, consists of a set of foreign affiliates, strategically located according to their underlying resource, cost or market function. These affiliates are part of the firm's direct value chain if they are owned and controlled by the parent firm. They become part of the MNE's indirect value chain if the foreign factories are linked to the MNE through contractual arrangements or strategic alliances.

The choice of location strategy is partly dependent on the age of the affiliate.[74] Firms may first go abroad by setting up extractors, offshores or importers. As the plant matures, a growth in functions is likely. Extractors may take on processing functions, offshores become sources, and importers become focused factories. Locational factors can influence this upgrading. Cascading tariff structures in Triad countries deter offshore processing and assembly. In mature industries such as automobiles, global MNEs follow integrative strategies that are cost driven, using source factories to divide production among affiliates and subcontractors, assembling the final products locally to meet domestic content requirements. Government-controlled industries such as telecommunications and aircraft, on the other hand, tend to adopt more nationally responsive strategies, *e.g.*, miniature replicas and focused factories.[75]

The revolution in information technology (IT) is also affecting the locational choices of MNEs. Natural resources and unskilled labour are being eliminated as sources of competitive advantage, while highly skilled workers are in increased demand. Given the global mobility of capital, MNEs are moving to set up factories in Triad cities to gain access to new technology. With the short product life cycles that the IT revolution has partly generated, access to the latest technology becomes more important. Just as in the 1970s, the MNEs set up offshore factories to take

FIGURE 1: LOCATIONAL STRATEGIES OF MULTINATIONALS



advantage of cheap labour through source factories, in the 1990s MNEs are setting up outposts and lead plants to take advantage of cheaper and newer sources of knowledge.[76] In the 1990s, knowledge-intensive production requires worldwide access to knowledge and this is replacing the search for cheap labour as the driving force behind MNE's foreign location strategies.

In summary, the field of international business studies is a rapidly growing area, where the focus of inquiry has shifted from explaining the act of FDI, to analysing the firm making the investments, to examining the international value adding activities of MNEs. The key ideas behind IBS are the OLI paradigm, the value chain and strategic management as tools explaining the organisational and locational structures of the new style MNEs of the 1990s. While there have been some crossovers between IBS and IPE scholars, particularly the work of Raymond Vernon, the concepts of the OLI tripod and the international value chain and their implications for states and markets have been little discussed by IPE scholars. In this last section, we turn to bringing the firm back into IPE.

BRINGING THE FIRM BACK IN: MULTINATIONALS IN IPE

As outlined above, IBS scholars have tried to understand and explain the new style MNEs of the 1990s. They are giant firms, linked by equity and nonequity relations in clusters, engaged in two-way flows of products, investments and technology within the Triadic economies. What implications does the IBS literature have for the faces of the MNE portrayed in the IPE literature? First, we examine some implications for the concept of states versus markets, and then for the five faces of MNEs in the IPE literature.

Bringing the Firm Back In: MNEs, Markets and Globalisation

IPE scholars argue that increasing interdependence or globalisation in the 1980s has exacerbated the tension between states and markets as neomercantilistic states jockey for competitive advantages in a shrinking world. However, if one examines the concept of globalisation more closely, the dominance of multinationals in this process becomes clear.

The globalisation of markets has been well documented.[77] It is a multifaceted phenomenon with at least three components. The first, convergence, refers to the trend within the Triad countries for the underlying production, financial and technology structures to approach a common average standard. For example, the technology gap between the United States and Europe and Japan has substantially lessened. Per capita income differentials have narrowed considerably. Although some would argue that the United States is still the global hegemon, it clearly acts in a multipolar world. Consumer tastes within the Triad countries have become more homogeneous, leading to the development of global markets and global products. OECD tariff rate differentials, both among countries and among product classifications, have narrowed, as have corporate tax differentials, further encouraging the globalisation of markets.

The second measure of globalisation, synchronisation, refers to the increasing macroeconomic tendency for the Triad economies to move in tandem, experiencing similar business cycle patterns. This has partly been hastened by the G7 states agreeing after the Plaza Accord to synchronise their economies more closely through monetary, fiscal and exchange rate policies. Increasingly, states are also using similar microeconomic and structural policies, *e.g.*, liberalisation, deregulation, privatisation, to encourage development and growth. The third component, interpenetration, has received the most attention. It refers to the growing importance of trade, investment and technology flows, both inwards and outwards, within each domestic economy. Trade and investment flows have grown faster than world GDP consistently since the 1950s, and this trend has accelerated since the mid-1980s. Two-way or intra-industry flows dominate intra-OECD patterns.[78]

A closer look at these three measures of globalisation, however, makes clear the importance of multinationals as the engineers or agents of this increasing interdependence. Statistics document the overwhelming importance of MNEs in today's markets.[79] While only a portion of MNEs are truly global, the 500 largest account for about 80 per cent of all foreign production and have sales turnovers of at least $US 100 billion.[80] Investment, trade and technology flows within the Triad economies are increasingly dominated by MNEs with global strategies. Eighty per cent of MNE activities are now within Triad countries, mostly two-way flows in similar industries.[81]

MNEs now dominate all the underlying structures of the global economy: production, finance, technology, security, energy and trade. Let us now turn to the five faces of MNEs in IPE and attempt to show how these faces need to be modified for the new style MNEs of the 1990s.

Bringing the Firm Back In: Faces of the MNE in IPE

1. The Product Life Cycle

The problems with the product cycle model of FDI are well known, with Vernon himself arguing that it has become obsolete.[82] The first version of the model suffers from several problems. In the first place, its single focus on the market seeking motive for FDI and inattention to the choices of foreign factories available to the MNE is too limited. The model assumes that firms set up abroad once foreign demand is high enough to justify the additional costs of producing in a foreign location. However, as argued above, global MNEs have at least three motives for going abroad: resource seeking, cost reduction and market access. Second, the model assumes that MNEs produce technologically sophisticated goods initially developed in their home markets. MNEs are viewed as the creators of technology, transferring it outwards to foreign affiliates. However, with the elimination of the technological gap, the homogenisation of tastes and the ease of international communications among the Triad economies, global MNEs now have lead plants and outposts in the major Triad markets in order to take advantage of domestic technology. Thus the parent firm is importing products and technology from its foreign affiliate abroad in a reversal of the model's prediction. In addition, the product cycle model cannot explain where or when particular products are developed in the Triad, or why there are mutual cross investments by MNEs in each other's markets.[83] The focus on manufactured goods rather than services is also problematic. The increasing volume of trade and FDI in services such as banking and engineering services does not fit the model well.

Vernon's second product cycle model, where the firms are strategic rivals engaged in battles over global market share does, however, describe today's oligopolistic global MNEs. It is surprising that the second version of the model still receives less attention than the first. Interpreted in a Triad-non-Triad framework where product cycles are short and research and development costs high, only the largest firms can afford to be technological leaders. Thus strategic alliances are increasingly being used in the Triad among global MNEs to exchange complementary technologies.[84] These alliances strengthen the position of global MNEs versus other firms, and the position of Triad countries versus other nations. Note that the creation of knowledge through strategic alliances is not itself the problem; problems arise because global MNEs operate in oligopolistic world markets where ownership advantages can be exploited to earn oligopolistic rents. However, the second product cycle model argues that the oligopoly itself becomes mature and obsolescent. With the information technology revolution, even mature products are undergoing rejuvenation. It is hard to argue that markets are maturing, and with the wide range of products which global MNEs produce and sell, generalisations about obsolescence are hard to justify. Thus the utility of the product cycle model in explaining today's global MNEs is somewhat limited.

2. Sovereignty at Bay

This is the twentieth anniversary of Vernon's sovereignty at bay thesis. Vernon and Spar argue that the model, interpreted as conflicts between states and MNEs, remains an accurate portrayal of MNE-state relations.[85] Extra-territoriality is still a problem as long as home countries such as the US maintain their rights to enforce domestic regulations on overseas affiliates of domestic MNEs. Two trends may check this somewhat. First, the trend to substitute foreign minority investments for FDI means that 'quasi-affiliates' may not be subject to the same home regulations. With the limits of the firm becoming less discernible (*e.g.*, are cross licenses, subcontracts and joint ventures part of the MNE?), it becomes more difficult for home and host states to enforce regulations such as transfer pricing and taxation rules. Second, the inflow of foreign investments is turning the United States into a host country. Its domestic policies for MNEs (antitrust, tax, national treatment, patent laws) were set up when the United States was a home country. With cross-cutting investments, US goals can be expected to change, albeit slowly, as foreign subsidiaries press for more favourable treatment in the United States.[86]

Vernon's three assumptions should also be modified to accommodate the global firms of the 1990s. First, states want economic, social and political benefits from the MNEs in their midst. With Triad countries being both home and host states simultaneously, pressures will be put on both domestic and foreign MNEs. Second, MNEs are caught between internal pressures for a globally integrative strategy and external pressures for a nationally responsive strategy. Different MNEs, depending on their structures and locational choices, will choose different mixes of integration and national responsiveness. Third, minority investments allow a more nationally responsive strategy while reducing the risks and costs involved in foreign production. Fourth, states are increasingly using domestic firms to further national competitiveness and strategic goals. Thus states, while now less attentive to the ownership of a particular plant, are demanding more contribution to national competitiveness.

An obvious extension, given the escalating demands for competitiveness by home states, is to apply the obsolescing bargain model in the home country-MNE situation. It is clear that Triad states are demanding more from the MNEs within their midst.[87] The usual assumption is that home states and MNEs have common interests. However, given the crosshauling of investments and the intra-industry nature of trade and investment flows, it becomes difficult to identify global MNEs in terms of their ownership. Nationality may be becoming a technical or legal term without real meaning. When firms are allied to each other through webs of co-operative arrangements, it becomes difficult for them to identify which firms are rivals, and where their national allegiance lies. MNEs are likely to respond in different ways to pressures depending on the rapidity of change they face and the homogeneity of firms in the industry.[88] Their willingness to co-operate with home country policies should vary depending on their value chains, their locational and organisational structures and the equity and nonequity arrangements to which they are tied.

While both MNEs and Triad states appear to have more options, both groups face increasing pressures: MNEs from other global rivals, states from domestic interest groups. Domestic regulation of MNEs has little effect unless accompanied by information exchanges among states. International regulations of MNEs remain toothless and nonbinding. One possible regulatory regime might emerge from the Uruguay Round. If the General Agreement on Tariffs and Trade (GATT) is extended to cover more investment issues (intellectual property rights, trade related investment measures), there may emerge codes of conduct which like-minded states can sign, effectively creating an international club within which MNEs are regulated.[89] It is unlikely that developing countries would be willing to join such a club; however, with substantial two way flows of investments, Triad states may find it to their mutual benefit to regulate MNE actions regionally. The inclusion of FDI measures within the Canada-US free trade agreement is one signal of this possible trend in state-MNE relations.

3. The Obsolescing Bargain

The theory of global MNEs adds further complications to the obsolescing bargain model. On the one hand, host states are faced with a shortage of savings, both domestic and international, with which to finance investments. Thus the need for inflows from MNEs has never been higher and host country bargaining power probably never been less, particularly for the least developed countries in sub-Saharan Africa. In addition, with more MNEs following global strategies focused on knowledge intensive production, the country-specific advantages of many developing countries are not high enough to attract global MNEs. The declining resource and labour intensity of production and the need to locate upstream suppliers close to final production are causing some MNEs to shift production from the South to the North.[90] Lastly, with well defined locational strategies, MNEs locate foreign plants in order to achieve particular purposes. The ability of host states to demand these affiliates move up the value chain and add more value locally becomes difficult. Host states need to understand the overall strategy of global MNEs and how their affiliates fit into this strategy. While the host state and domestic interest groups may see foreign firms as levers of change and adopt strategies that target particular MNE policies, affiliates vary in their will and capacity to respond.[91]

On the other hand, as MNEs delink foreign production from ownership, more firms that are willing to unbundle the FDI package – for a price. As Oman notes, while host countries may call such inflows foreign investments, in many cases the foreign firm is really engaged in exporting (*e.g.*, turnkey plants).[92] When the MNE is a seller of access to its core competencies, the divergence of interests between the MNE and the host state is more profound since the two are effectively locked in a bilateral monopoly. As an investor however, the MNE has a shared interest with the host state in maximising the overall profit on the project, even though they differ over the relative gains. Thus host LDCs now may face more options in terms of foreign inflows but minority investments may not be as attractive in the long run.

4. The Law of Uneven Development

Hymer's concern with the inequity of the FDI process, its tendency to concentrate wealth and highly paid jobs in the North, remains a present concern of IPE scholars. The focus of international business studies on the MNE as an efficient international unit, arbitraging markets and state-generated imperfections is not one for which critical IPE theorists have much sympathy. Although it should be stated that movement is occurring in both directions. IBS scholars are becoming more concerned about the oligopolistic tendencies of global MNEs; while IPE scholars are faced with the graduation of some Asian countries to income levels above certain members of the Triad, demonstrating that periphery states can engineer their own movement up the development ladder using foreign investment.[93]

The new-style MNEs of the 1990s, however, may play out the law of uneven development by widening the income gap between the richest and poorest countries. With FDI almost occurring totally within Triadic economies and strategic alliances among Triad MNEs producing most technology, the technology gap between the North and the poorest countries of the South (*e.g.*, sub-Saharan Africa) is likely to widen. While lead plants may be located in more than one country (decentralising Hymer's top management jobs), they will only be found within the Triad. As the newly industrializing economies graduate to more capital and knowledge intensive production plants, the poorest LDCs may well be left with only resource seeking and cost reducing foreign investments. Without a more open trading order that encourages LDC exports of labour intensive manufactured products to the North and attracts MNE investments, uneven development – a wealthy core, fast growing semiperiphery and stagnant periphery – may well continue.

5. The Changing International Division of Labour

It is on this face that IPE and IBS scholars are closest; but, while both have focused on technological change, the two groups have had quite different concerns. IPE scholars, worried about the impact on developing countries, have generally taken a critical view of the worldwide sourcing strategies of MNEs and also fear the movement of production from the South to the North under post-Fordism. Most IBS scholars, on the other hand, have been interested in the impact of technological change on cost-savings and competitiveness for the Triad economies. Both groups agree, however, that the tendency to uneven development may be exacerbated by information technology.

Changes in product and process technology are encouraging the introduction of flexible manufacturing systems in manufacturing plants. Low-cost labour is no longer the focus of MNE worldwide sourcing. Sourcing new products and processes from other Triad partners is now key for the new-style MNEs. Offshores are therefore likely to be more footloose in the 1990s, moving back to the OECD countries. As some authors have argued, the newly industrializing economies may have difficulty retaining their share of MNE value added unless they increase their locational advantages.[94]

Nevertheless the impact of post-Fordism on service sector MNEs has been little studied by either group; nor has there been much examination of the effects on the various MNE locational strategies.[95] If MNEs secure natural resources through nonequity investments and are less attentive to labour costs, there are still a number of factors that will determine the choice of location. Further research on the impact of choices on LDCs is needed.

In conclusion, the new five faces of the MNE outlined above differ from the general ones presented in the IPE literature. The international business studies literature calls for more attention to the specificities of global MNEs: their goals, strategies, structures and locational patterns. The key characteristics of the new-style MNEs are their clusters of equity and nonequity relationships, the increasing importance of access to foreign knowledge rather than resources or labour inputs, and their complicated patterns of international value chains. From the brief outline presented here, we conclude that more work on upgrading the five faces is necessary; IPE scholars need to 'move up the value chain' in their analyses of the multinational within IPE.

CONCLUSIONS

The purpose of this paper was to examine the ways in which multinationals are treated within international political economy and to document the need to 'bring the firm back in'. The paper reviewed the faces which multinationals assume in the IPE literature, contrasted these with the research on MNEs within international business studies, and made a first attempt to integrate the new developments in the business literature into IPE theory.

Just as Evans, *et. al.*, assert that 'critique and prescription have tended to overshadow and constrain analysis' of the state within international relations, so too has the IPE literature boxed the MNE into the undifferentiated concept of the market.[96] Critique and prescription within IPE have constrained analysis of the MNE. Whereas IPE takes a general approach that focuses on foreign direct investment as a process, the IBS literature has opened the box in order to understand the MNE as an institution and as an actor that engages in international productive activities. As markets have become increasingly globalised and dominated by large firms, a clearer focus on the MNE as an institutional actor with goals, strategies and structures is needed in the study of international political economy. MNEs are an increasingly dominant actor in both domestic and international markets and in international politics. Without a better understanding of this actor's goals, structures and institutional processes, our comprehension of the sources and uses of power in international political economy remains imprecise. More careful analyses of the causes and consequences of MNE responses to state actions can lead to a better understanding of the efficacy of state policies, and of state-MNE relations. Nuanced and sophisticated studies of the MNE are needed, both in terms of the underlying structures – production, finance, technology, security, trade, energy – of the global economy, and of the web of bargains that drive world efficiency, equity, development and growth. The crucial problem for the study of IPE as we move into the twenty-first century is the tension between states and multinationals, the two key actors in the global economy, not between states and markets. It is time to bring the firm – the MNE – back into international political economy.

Lorraine Eden is Associate Professor at the
Norman Paterson School of International Affairs,
Carleton University, Ottawa, Ontario, Canada K1S 5B6.

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An earlier version of this paper was presented at the annual meeting of the International Studies Association in Vancouver, March 19-24, 1991. Research assistance was provided by Jeremy Byatt and Susan Olsen. I would also like to thank Derek Baas, Michael Dolan, Richard Higgott, Barbara Jenkins, Christopher Maule, Maureen Molot, Angela Nembavlakis, Tony Porter, Yimin Qi, Susan Strange, Raymond Vernon, the students in my MNEs course, the outside referees and the editors of *Millennium* for helpful comments. I assume responsibility for any remaining errors and for the views expressed in this paper.

1 Robert Gilpin, *The Political Economy of International Relations* (Princeton, NJ: Princeton University Press, 1987), pp. 10-11.

2. Susan Strange, *States and Markets: An Introduction to IPE* (London: Pinter, 1988), p. 18; Roger Tooze 'Perspectives and Theory: A Consumer's Guide', in Susan Strange (ed.), *Paths to International Political Economy* (London: Allen and Unwin, 1984), p.12.

3. Strange, *op. cit.*, in note 2. Strange has more recently argued that IPE must be looked at from the viewpoint of the MNE because multinationals exercise power and the aim of IPE is to look for sources and effects of power. See Susan Strange, 'An Eclectic Approach', in Craig Murphy and Roger Tooze (eds.), *The New International Political Economy* (Boulder, CO: Lynne Rienner 1991), pp. 40-49.

4. United Nations Center for Transnational Corporations (UNCTC), *Transnational Corporations in World Development* (New York: United Nations, 1988), Chapter 1.

5. For example, the following books cover multinationals in one chapter (Spero devotes two), but pay little attention to MNEs outside these pages: Robert Gill and David Law, *The Global Political Economy: Perspectives, Problems and Policies* (Baltimore, MD: Johns Hopkins University Press, 1988); Gilpin, op. cit., in note 1; Robert Isaak, *International Political Economy: Managing World Economic Change* (Englewood Cliffs, NJ: Prentice Hall, 1991); and Joan Spero, *The Politics of International Economic Relations* 4th ed. (New York: St. Martins Press, 1990). R. D. McKinley and R. Little, *Global Problems and World Order* (Madison, WI: University of Wisconsin Press, 1986) and Strange, *op. cit.* note 2. Each explicitly discuss MNEs or foreign direct investment over about 20 pages. I take these books as representative of current IPE texts.

6. For example, political scientists have historically used the term MNC. Economists tend to use MNE, arguing that all multinationals are enterprises but not all are incorporated. There may also be a regional bias, with American scholars using MNC and British scholars using MNE. UNCTAD and the UNCTC use the term TNC on the grounds that MNE or MNC implies multinational ownership whereas most multinationals are owned by residents of one country, according to Horst Heininger, 'Transnational corporations and the Struggle for the Establishment of a New World Order', in Alice Teichova, Maurice Levy-Leboyer, and Helga Nussbaum (eds.), *Multinational Enterprise in Historical Perspective* (Cambridge: Cambridge University Press, 1986). The term MNF has been dropped since a multinational may consist of several firms. D.K. Fieldhouse, 'The Multinational: A Critique of a Concept', in Alice Teichova, *et. al., op. cit.* documents the history of the term multinational corporation since its first use in 1960, arguing that the concept has been taken up and misused by a variety of interest groups.

7. The term new style MNEs is used by John Dunning, *Explaining International Production* (Boston, MA: Unwin Hyman, 1988), Chapter 13; Sylvia Ostry, *Governments and Corporations in a Shrinking World: Trade and Innovation Policies in the United States, Europe, and Japan* (New York: Council on Foreign Relations, 1990) refers to them as global corporations.

8. In both cases page length must make our examination somewhat cursory; interested readers are directed to the bibliographies and summaries cited here and in these readings for more extensive treatments.

9. See Jeffery Frieden and David Lake (eds.), *International Political Economy* (New York: St. Martin's Press, 1987); Gill and Law, *op. cit.*, in note 5, Chapters 3-7, 11; Robert Gilpin, 'Three Models of the Future', in C.F. Bergsten and L.B. Krause (eds.), *World Politics and International Economics* (Washington, D.C.: The Brookings Institution, 1975), Chapter 6; Gilpin, *op. cit.*, in note 1, Chapters 2 and 6; Heininger, *op. cit.*, in note 6; Isaak, *op. cit.*, in note 5, Chapter 6; David Leyton-Brown, 'The Roles of the Multinational Enterprise in International Relations' in David Haglund and Michael Hawes (eds.), *World Politics, Interdependence and Dependence* (Toronto: Harcourt, Brace, Javanovich, 1990); McKinley and Little, op. cit., in note 5, pp. 97-98, 130-36 and 154; Theodore Moran (ed.), Multinational Corporations: *The Political Economy of Foreign Direct Investment*, (Lexington, MA.: Lexington Books, 1985), Chapters 1, 7, 13; Spero, *op. cit.*, in note 5, Chapters 4, 8; and Strange, *op. cit.*, in note 2, pp. 74-87.

10. Robert T. Kurdle, 'The Several Faces of the Multinational Corporation: Political Reaction and Policy Response', in W. Ladd Holsti and F. LaMond Tullis (eds.), *An International Political Economy* (Boulder, CO.: Westview Press, 1985) argues that host countries see the multinational enterprise as having three faces: extension (as an extension of the home country), rival (as a rival to the host country), and resource (as a resource transfer package to the host country). All three of these faces fall within one of the five faces of MNEs of IPE: the obsolescing bargain model. In addition, the extension and rival faces are captured in the sovereignty at bay argument.

11. See all of the following by Raymond Vernon: 'International Investment and International Trade in the Product Cycle', *Quarterly Journal of Economics* (Vol. 80, No. 2, May 1966); Sovereignty at Bay (Harmondsworth: Penguin Books, 1971); *Storm Over the Multinationals* (Cambridge, MA: Harvard University Press, 1977); 'The Product Cycle Hypothesis in the New International Environment', *Oxford Bulletin of Economics and Statistics* (Vol. 41, No. 4, Nov. 1979); 'Sovereignty at Bay: Ten Years Later', *International Organization* (Summer 1981), reprinted in Moran, *op. cit.*, in note 9.

12. See Steven Hymer 'The Multinational Corporation and the Law of Uneven Development', in Jagdish Bhagwati (ed.), *Economics and World Order* (New York: McMillan, 1971), and 'The International Division of Labour' in R.B. Cohen, N. Felton, J. van Liere and M. Nkosi, (eds)., *The Multinational Corporation: A Radical Approach, Papers by Stephen Herbert Hymer* (Cambridge: Cambridge University Press, 1979).

13. On the differences between problem solving and critical theory see Robert Cox, 'Social Forces: States and World Order', *Millennium Journal of International Studies* (Vol. 10, No. 2, 1981), pp. 126-55.

14. Vernon, *op. cit.*, in note 11, 1966.

15. Vernon, *op. cit.*, in note 11, 1971: pp. 65-112, 1977: 89-101, and 1979.16.Gilpin, *op. cit.*, in note 9.

17. Raymond Vernon, *op. cit.*, in note 9, 1981, p. 247.

18. Vernon, *op. cit.*, in note 11, pp. 231-47.

19. Vernon, *op. cit.*, in note 17, 1981.

20. Raymond Vernon and Debra Spar, *Beyond Globalism: Remaking American Foreign Economic Policy* (New York: Macmillan, 1990), pp.109-39.

21. Moran, *op. cit.*, in note 9, p. 274.

22. Steven J. Kobrin, 'Testing the Bargaining Hypothesis in the Manufacturing Sector in Developing Countries', *International Organization* (Vol. 41, 1987), p. 610.

23. Vernon, *op. cit.*, in note 11, 1971: pp. 46-59, and 1977: pp. 151-73. See Chapter 1, the citations in its footnotes and the case studies in Moran, op. cit., in note 9 for a review of the literature to the mid-1980s. See also Barbara Samuels, Managing Risk in Developing Countries (Princeton, NJ: Princeton University Press, 1990) Chapter 1 and the bibliography for an update.

24. Kobrin, *op. cit.*, in note 22, pp. 634-37.

25. Moran, *op.cit.*, in note 9, pp. 264-69.

26. Hymer, *op. cit.*, in note 12, 1971. See also Hymer, op. cit., in note 12, 1979, and Hugo Radice (ed.), *International Firms and Modern Imperialism* (London: Penguin, 1975).

27. The arguments are not developed in detail here. See, for example, Samir Amin, *Unequal Development* (Hassocks: Harvester, 1976); Rhys Jenkins, TNCs and Uneven Development: *The Internationalization of Capital and the Third World* (London: Methuen, 1987), and Richard Newfarmer (ed.), *Profits, Progress and Poverty* (Notre Dame: University of Notre Dame Press, 1985).

28. Cox, *op.cit.*, in note 13; see also Robert Cox, *Production, Power and World Order: Social Forces in the Making of History* (New York: Columbia University Press, 1987).

29. See James Caporaso (ed.), *A Changing International Division of Labour* (Boulder, CO: Lynne Reiner Publishers), Chapter 1, for a theoretical overview of the literature on the international division of labour. Mark Casson, *Multinationals and World Trade: Vertical Integration and the Division of Labour in World Industries* (London: Allen and Unwin, 1986), Chapter 2, relates this literature to the economic theory of the vertically integrated MNE.

30. See Folker Froebel, Jurgen Heinrichs and Otto Kreye, 'The World Market for Labour and the World Market for Industrial Sites', *Journal of Economic Issues* (Vol. 12, No. 4, 1978), pp. 843-858; Kurt Hoffman and Raphael Kaplinsky, *Driving Force: The Global Restructuring of Technology, Labour and Investment in the Automobile and Components Industries* (Boulder, CO: Westview Press, 1988).

31. Hymer, *op. cit.*, in note 12, 1979.

32. John Dunning, 'The Globalization of Firms and the Competitiveness of Countries', in John Dunning, Bruce Kogut and Magnus Blomstrom (eds.), *Globalization of Firms and Competitiveness of Nations* (Crafoord Lectures, Lund: Lund University Institute of Economic Research, 1990).

33. For example, Hymer's early work on the oligopolistic advantages of MNEs that allow them to cover the costs of foreignness in going abroad is a key component of the OLI paradigm outlined below. However, his later neomarxist writings are not discussed. Dependencia views are almost totally ignored.

34. For example, Gill and Law, *op. cit.*, in note 5, and Strange, *op. cit.*, in note 4.

35. Charles Kindleberger, *American Business Abroad: Six Lectures on Direct Investment* (New Haven, CT: Yale University Press, 1969). See Alfred Chandler: 'Technological and Organizational Underpinnings of Modern Industrial Multinational Enterprise: The Dynamics of Competitive Advantage', in Alice Teichova *et al.*, *op. cit.*, in note 6, and *Scale and Scope: The Dynamics of Industrial Capitalism* (Harvard: Belknap Press of Harvard University, 1990). The early work on the MNE as an actor was developed in Stephen Hymer's 1960 Doctoral dissertation, written under Charles Kindleberger. See Hymer, The International Operations of National Firms: A Study of Direct Investment (Ph.D. Thesis, MIT; published by MIT Press under the same title in 1976). Their works on oligopolistic motives for FDI are now known in IBS as the Hymer-Kindleberger approach.

36. Kindleberger, *op. cit.*, in note 35, 1969; Charles Kindleberger, ed. *The International Corporation* (Cambridge, Mass.: MIT Press, 1970); Richard Caves, *Multinational Enterprise and Economic Analysis* (Cambridge, U.K.: Cambridge University Press, 1982).

37. Good summaries of the various theories can be found in John Cantwell, 'A Survey of Theories of International Production' (Mimeo: University of Reading Department of Economics, 1990), and Dunning, *op. cit.*, in note 7, Chapters 1,2 and 12, For a short summary see John Dunning, 'The Theory of International Production', in Khosrow Fatemi (ed.), *International Trade: Existing Problems and Prospective Solutions* (New York: Taylor and Francis, 1989).

38. There are many references but several of the best known are gathered together in Dunning, *op. cit.*, in note 7. See also Dunning, *op. cit.*, in note 37 for a concise summary of the development of the OLI model; John Dunning, 'The Study of International Business: A Plea for a More Inter-disciplinary Approach', *Journal of International Business Studies* (Fall, 1989), pp. 411-36 for current directions in IBS; Dunning, op.cit, in note 325 on globalisation, MNEs and competitiveness; Casson, op. cit., in note 29; Mark Casson, *The Firm and the Market: Studies in Multinational Enterprise and the Scope of the Firm* (Oxford: Basil Blackwell and Cambridge, Mass: MIT Press, 1987); and Cantwell, *op. cit.*, in note 37.

39. Cantwell, *op. cit.*, in note 37, argues that the eclectic paradigm can be analyzed at the macro (economy), meso (industry) or micro (firm) level. Dunning, *op. cit*, in note 37, pp. 68-69 shows how these advantages can vary at each level. For an application of this model to the pharmaceutical industry see Lorraine Eden, 'Pharmaceuticals in Canada: An Analysis of the Compulsory Licensing Debate', in Alan Rugman (ed.), I*nternational Business in Canada: Strategies for Management* (Toronto: Prentice Hall, 1989).

40. Farok Contractor and Peter Lorange, *Cooperative Strategies in International Business* (Lexington, Mass:Lexington Books, 1988) and Charles Oman, *New Forms of Investment in Developing Countries: Mining, Petrochemicals, Automobiles, Textiles, Food* (Paris: Development Centre of the OECD, 1990) document the growing nonequity linkages among MNEs. Charles Kindleberger, 'The "New" Multinationalization of Business', *ASEAN Economic Bulletin* (November 1988), pp. 113-24, argues, however, that many of these so-called 'new forms of international business' are not new (*e.g.*, joint ventures) and may not be efficiency based.

41. On international competitiveness strategies see Michael Porter: *The Competitive Advantage of Nations* (New York: The Free Press, 1990a), and `The Competitive Advantage of Nations', *Harvard Business Review* (March-April, 1990b), pp. 73-93; Ostry, *op. cit.*, in note 7; Alan Rugman and Alain Verbeke, *Global Corporate Strategy and Trade Policy* (London and New York: Routledge, 1990).

42. See Lorraine Eden, 'Multinational Responses to Trade and Technology Changes: Implications for Canada', in Don McFetridge (ed.), *Foreign Investment, Technology and Growth* (Ottawa: Investment Canada, 1991); UNCTC, *op. cit.*, in note 4; and Rob van Tulder and Gerd Junne, *European Multinationals in Core Technologies* (New York: John Wiley, 1988) on information technology and its potential impacts on MNE organisational and locational structures.

43. Eden, *op. cit.*, in note 42; UNCTC, *op. cit.*, in note 4; Van Tulder and Junne, *op. cit.*, in note 56.

44. Dunning, *op. cit.*, in note 7, p. 327.

45. C.K. Prahalad and Gary Hamel, 'The Core Competence of the Corporation', *Harvard Business Review* (May-June 1990), pp. 78-91.

46. See Ian Giddy and Stephen Young, 'Conventional Theory and Unconventional Multinationals: Do New Forms of Multinational Enterprise Require New Theories?' in Alan Rugman (ed.) *New Theories of the Multinational Enterprise* (London: Croom Helm, 1982), pp. 55-78, on the ownership advantages of 'nonconventional' MNEs. They argue that multinationals from LDCs and small countries tend to rely more heavily on nonequity joint ventures, do not have innovation based advantages, and tend to be imitators, fast followers or niche players. See also Oman, *op. cit.*, in note 40.

47. The key work initiating this study is Porter, *op. cit.*, in note 55, 1990a. A much shorter and more readable summary can be found in Porter, *op. cit.*, in note 41, 1990b. Porter argues that home states can generate sustainable competitive advantages in domestic firms by encouraging the development of a domestic competitiveness diamond. This diamond has four points: (1) factor conditions, (2) related and supporting industries, (3) demand conditions, and (4) firm strategy and industry structure.

48. At a micro level, David Teece, 'Profiting from Technological Innovation', in David Teece (ed.) *The Competitive Challenge: Strategies for Industrial Innovation and Renewal* (Cambridge, Mass.: Ballinger Publishing, 1987), pp. 185-219, is most useful in identifying the roles of the initial innovator, the fast followers and the owners of specialised and co-specialised assets. At a macro level, John Cantwell, *Technological Innovation and Multinational Corporations* (Oxford: Basil Blackwell, 1989), and Cantwell, *op. cit.*, in note 37, develop a model of the MNE and technological competence.

49. Mark Casson, *Enterprise and Competitiveness: A Systems View of International Business* (Oxford: Clarendon Press, 1990) examines the economic and cultural determinants of firm performance, arguing that culture-specific transactions costs explain most performance differences. He examines the roles of the entrepreneur as a risk taker. problem solver and global scanner. Determinants of entrepreneurial culture are discussed, applied in case studies of the United States and Japan, and then extended to examine joint ventures and the impacts of MNEs on LDCs.

50. This last issue has caused some considerable internal debate among the British IBS scholars. See the summary in Cantwell, *op. cit.*, in note 37.

51. Dunning, *op. cit.*, in note 32, p. 60, calls these internalisation advantages arising from structural market failure.

52. Cantwell, *op. cit.*, in note 37, p.13; Alan Rugman. Don Lecraw and Lawrence Booth, *International Business: Firm and Environment* (Toronto: McGraw Hill, 1985), pp. 104-108.

53. Francois Chesnais, 'Multinational Enterprises and the International Diffusion of Technology', in Giovanni Dosi *et al.*(eds.), *Technical Change and Economic Theory* (London and New York: Pinter Publishers, 1988).

54. Contractor and Lorange, *op. cit.*, in note 40, 1988.

55. Markets versus hierarchies theory, referred to as the new institutional economics, was recently linked to IPE in Beth Yarbrough and Robert Yarbrough, 'International Institutions and the New Economics of Organization', *International Organization* (Vol. 44, No. 2, Spring 1990), pp. 235-59. For an application of the theory of governance to international regimes see Lorraine Eden and Fen Hampson, 'Clubs are Trumps: Towards a Taxonomy of International Regimes', *CITIPS Working Paper 90-02* (Ottawa: Carleton University, 1990). It is interesting that the IPE literature sets up its polar cases as states versus markets, whereas the IBS literature uses markets versus hierarchies. In both sets of literature markets are the alternative to the primary unit of analysis.

56. Erin Anderson and Hubert Gatignon, 'Modes of Foreign Entry: A Transactions Cost Analysis', *Journal of International Business Studies* (Vol. 17, No.3, 1986), pp. 1-26.

57. Oman, *op. cit.*, in note 40.

58. Freidrich Schneider and Bruno Frey, 'Economic and Political Determinants of Foreign Direct Investment', *World Development* (Vol. 13, No.2, 1985), pp. 161-75. Dunning, *op. cit.*, in note 7, divides locational advantages into environmental, systemic and policy factors. While the interpretations are somewhat similar, the triad of economic, social and political factors is easier to differentiate.

59. Dunning, *op. cit.*, in note 32.

60. Dunning, *op. cit.*, in note 7 contains approximately 40 pages on the state and state policies. Just as the major IPE textbooks pay insufficient attention to the MNE, so do the major MNE textbooks provide too little study of the state. One recent exception is a new book on government-business relations by Jack Behrman and Robert Grosse, *International Business and Government: Issues and Institutions* (Columbia, South Carolina: University of South Carolina Press, 1990).

61. Ostry, *op. cit.*, in note 7.

62. Rugman and Verbeke, *op. cit.*, in note 41.

63. See by Michael Porter, *Competitive Strategy* (New York: The Free Press, 1980), *Competitive Advantage* (New York: The Free Press, 1985); Porter (ed). *Competition in Global Industries* (Cambridge, Mass.: Harvard Business School Press, 1986); and Porter, 'Changing Patterns of International Competition' in David Teece (ed.), *The Competitive Challenge: Strategies for Industrial Innovation and Renewal* (Cambridge, Mass: Ballinger Publishing Co., 1987). See also Yves Doz, *Strategic Management in Multinational Enterprises* (Oxford: Pergamon Press, 1986); Christopher Bartlett and Sumantra Ghoshal, *Managing Across Borders* (Boston: Harvard Business School Press, 1989).

64. Porter, *op. cit.*, in note 63, 1986, pp. 46-49.

65. Doz, *op. cit.*, in note 63; Anant Negandhi and Arun Savara (eds.), *International Strategic Management* (Lexington, Mass: Lexington Books, 1989).

66. Mark Casson, 'Transactions Costs and the Theory of the Multinational Enterprise', in Alan Rugman (ed.), *New Theories of the Multinational Enterprise* (London and Canberra: Croom Helm, 1982); Porter, op. cit., in note 63, 1986; Nigel Grimwade, *International Trade: New Patterns of Trade, Production and Investment* (London and New York: Routledge, 1989).

67. Lorraine Eden, 'The Microeconomics of Transfer Pricing', in Alan Rugman and Lorraine Eden (eds.), *Multinationals and Transfer Pricing Management* (London and New York: Croom Helm and St. Martins Press, 1985).

68. Stefan H. Robock and Kenneth Simmonds, *International Business and Multinational Enterprises* (Homewood and Boston: Irwin, 1989), p. 253.

69. Business International, *Organizing for International Competitiveness: How Successful Corporations Structure Their World Wide Operations* (New York: Business International, 1988) identifies seven generic types: (1) the international division where one unit within the MNE is responsible for all international operations; (2) worldwide regional where the MNE's affiliates are divided into regional divisions; (3) national subsidiaries where each host country constitutes a division; (4) worldwide product divisions where the MNE is organized into several domestic businesses each of which is responsible for its own worldwide operations; (5) worldwide functional divisions based on major functions, *e.g.*, administration, manufacturing, research and development; (6) matrix structures that focus on two characteristics (product, function, region), providing a dual chain of command; and (7) mixed where the MNE combines two or more of the above structures. Business International concludes that the mixed and matrix structures, due to their synergistic properties, are likely to dominate MNE organisational structures in the 1990s. See also OECD, *Recent Trends in International Direct Investment* (Geneva: OECD, 1987).

70. Peter F. Drucker, 'The Coming of the New Organization', *Harvard Business Review* (Jan.-Feb. 1988), pp. 45-63.

71. Grimwade, *op. cit.*, in note 66, pp. 143-215.

72. For more discussion of these locational strategies in the context of technology and trade policy changes facing US multinationals with Canadian affiliates, see Eden, *op. cit.*, in note 42. This paper adds an additional locational strategy (the world product mandate) which is not considered here due to its specific Canadian context.

73. Gary Gereffi, in 'International Subcontracting and Global Capitalism: Reshaping the Pacific Rim', presented at the PEWS conference on Pacific-Asia and the Future of the World System, University of Hawaii at Manoa, March 28-30, 1991, refers to offshores as 'export processors' and source factories as 'component suppliers', pp. 5-8.

74. Kasra Ferdows, 'Mapping International Factory Networks', in Kasra Ferdows (ed.), *Managing International Manufacturing* (Amsterdam: North Holland, 1989).

75. Doz, *op. cit.*, in note 63.

76. Lynne K. Mytelka, 'Knowledge-Intensive Production and the Changing Internationalizatio n Strategies of Multinational Firms', in James Caporaso (ed.), *A Changing International Division of Labour* (Boulder, CO: Lynne Reinner).

77. Doz, *op. cit.*, in note 63, Ch.6; Investment Canada, 'The Business Implications of Globalization', *Investment Canada Working Paper Series*, No. 1990-V.(Ottawa: Government of Canada, 1990); UNCTC, *op. cit.*, in note 4, Part I.

78. Asim Erdlick (ed.), *Multinationals as Mutual Invaders: Intra-industry Direct Foreign Investment* (New York: St. Martins Press, 1985), Grimwade, *op. cit.*, in note 66, Ch.1; Investment Canada, *op. cit.*, in note 77; OECD, Structure and Organization of Multinationals (Geneva: OECD, 1987); UNCTC, *op. cit.*, in note 4.

79. Investment Canada, 'International Investment: Canadian Developments in a Global Context', *Investment Canada Working Paper 1990-VI* (Updated) (Ottawa: Investment Canada, 1991), OECD, *op. cit.*, in note 78; UNCTC, *op. cit.*, note 4.

80. Dunning, *op. cit.*, in note 7, p. 328.

81. Dunning, *op. cit.*, in note 32, pp. 24-25; Grimwade, op. cit., in note 66.

82. Vernon, *op. cit.*, in note 11, 1977 and 1979.

83. The link to Porter's (*op. cit.*, in note 41, 1990a,b) diamond of competitive advantage may provide a clue; *i.e.* sophisticated consumers and strong competitive rival firms in the home country can generate an explosion of new products. Thus, as Porter argues individual countries may have a comparative advantage in particular industries such as Northern Italy in textiles. See also Erdlick, *op. cit.*, in note 78.

84. Mytelka, *op. cit.*, in note 76.

85. Vernon and Spar, *op. cit.*, in note 20.

86. Helen Milner, *Resisting Protectionism: Global Industries and the Politics of International Trade* (Princeton, NJ: Princeton University Press, 1988); Helen Milner and David Yoffie, 'Between Free Trade and Protectionism: Strategic Trade and a Theory of Corporate Trade Demands', *International Organization* (Vol. 43, No. 2, Spring 1989), pp. 239-72. One obvious example of this change is the Exon- Florio amendment which requires the Committee on Foreign Investment in the United States (CFIUS) to review large inward FDI projects for their national security effects. The CFIUS has been around for some time, but that its functions have been and are likely to be increased, partly to monitor Japanese takeovers of US firms. Another interesting question arises as to whether Japanese and European states will attempt to apply extraterritoriality to affiliates in the United States.

87. Benjamin Cohen, 'The Political Economy of International Trade', *International Organization* (Vol. 44, No. 2, Spring 1990), pp. 261-81; Ostry, op. cit., in note 7; David Richardson, 'The Political Economy of Strategic Trade Policy', *International Organization* (Vol. 44, No.1, Winter, 1990), p. 107-35.

88. Milner and Yoffie, *op. cit.*, in note 108.

89. Eden and Hampson, *op. cit.*, in note 70.

90. Gerd Junne, 'Automation in the North: Consequences for Developing Countries Exports', in Caporaso (ed.), *op. cit.*, in note 29.

91. Samuels, *op. cit.*, in note 28. Some optimism may be provided by Ferdows, *op. cit.*, in note 74 who argues that as subsidiaries mature they tend to adopt more technologically sophisticated functions within the MNE; *e.g.*, offshores moving up to source factories. This is already happening in the Mexican maquiladoras where the old plants (offshores) tend to be simple, female dominated and labour intensive operations (*e.g.*, in textiles) while the new plants (source factories) are more technology and capital intensive and operate with a higher proportion of male workers (*e.g.*, in autos and advanced electronics assembly). See Gary Gereffi, Mexico's Maquiladoras Industries: What Is their Contribution to National Development and Transnational Integration in North America?', presented at the conference Facing North/Facing South: A Multidisciplinary Conference on Canadian-US-Mexican Relations, University of Calgary, May 2-4, 1991.

92. Oman, *op. cit.*, in note 40.

93. Magnus Blomstrom, *Transnational Corporations and Manufacturing Exports from Developing Countries* (New York: United Nations, 1990); UNCTC, op. cit., in note 4. Joel Migdal's recent book *Strong Societies and Weak States: State-Society Relations and State Capacities in the Third World* (Princeton: Princeton University Press, 1988), however, documents the difficulties governments in the Third World face in mobilising their resources for development purposes.

94. Junne, *op. cit.*, in note 90; James Womack, Daniel Jones and Daniel Roos, *The Machine that Changed the World* (New York: Rawson Associates, 1990. Locational advantages can be increased through technological upgrading and/or trade linkages. For example, Womack *et. al.*, see small sized auto plants moving to Mexico in response to a North American Free Trade Agreement. See also Eden, *op. cit.*, in note 42.

95. Lavalin, a Canadian engineering MNE, in the mid-1980s shifted its drafting work from Canada to India where unit labour costs were lower. With the introduction of CAD-CAM in Canada, the MNE recently shifted the drafting work back to Canada. This example demonstrates the importance of technological infrastructure for both manufacturing and services in developing countries.

96. Peter Evans, Dietrich Rueschemeyer and Theda Skocpol, 'On the Road to a More Adequate Understanding of the State', in Evans *et al.*(eds.), *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985), p. 363.