The full content of this publication cannot be shared as it is a book. I here attach Contents and Introduction to give an idea of what the book is about. Third edition out in Sept 2019.

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I Overview of the book

The subject matter of this book is the transnational corporation (TNC) and its activities, particularly its direct production activities abroad. The book deals with the following three major areas:

- Evolution and Concepts in Part I;
- Theories in Parts II and III;
- Effects in Part IV.

The first part is designed to introduce the reader to basic concepts as well as to the development of TNCs and to changes in their internal organizational structure. It will also give a glimpse into trends and patterns in the population of TNCs and the modalities of their activities. A brief excursion into the historical evolution of the TNC leads to a discussion of the favourable conditions that made possible the growth of TNCs and their activities on the scale we have seen in the last 70 years.

The existence of favourable conditions tells us why it was possible for such developments to take place. However, we still have to explain why the companies wanted and want to develop internationally. On this issue we have a variety of theories which will be presented historically in Parts II and III of the book.

The reason for the historical approach is twofold. First, because it allows the reader to see the links between a specific theory and the social and economic circumstances and environment in which it was developed. Second, because it facilitates the historical analysis of ideas in our field. It therefore allows us to analyse the antecedents to a theory as well as its effects on later theoretical developments.

Comparisons between each theory and the ones preceding it will, in fact, be made, in the critical analysis of each theory. This will be presented at the end of each chapter on the theory – or in a few cases group of theories – after the presentation of the theory itself. The presentation and the critical analysis will be kept separate to avoid confusion in the mind of the reader and, indeed, to encourage the students or the lecturers to develop and present their own criticisms. This approach is rooted in the belief: (a) that critical analysis is an integral part of the learning process, particularly in higher education; and that, moreover, (b) it is the essential ingredient in the development of any subject and, therefore, in doing worthwhile research.

The study of History of Economic Thought has, unfortunately, gone out of fashion even in countries – such as Italy – where it was strongly embedded within the academic profession for decades after WWII. This leaves the subject of economics impoverished and young researchers the poorer in terms of overall knowledge and skills. The study of TNCs and their theories has never been fully integrated into economics for reasons I will consider in the next section and in Chapter 18. There are some history/biographies of major transnational companies such as BAT (British American Tobacco) – by Cox (2000) - or BP (British Petroleum) by Ferrier (1982) and by Bamberg (2000). However, as far as I know, this book and my efforts preceding and following its first edition in 2005 – are the only ones in which the theories of the TNC are presented as history of economic thought. The current edition continues and deepens the history of ideas approach. I am convinced that such an
approach, when embedded in reality, helps us to better understand the theories themselves as well as developments in the economic systems to which the TNCs are major contributors and shapers.

The two parts on theories deal with two different historical periods demarcated by the Second World War (WWII). The chosen demarcation is important for two reasons: first, because the decades after WWII have seen unprecedented growth in the activities of transnational firms; and second, because the theories of the TNC and its activities – as we know them today – only began after WWII. Nonetheless there are some historical antecedents which are worth exploring and this is what Part II does. In this part the theories are grouped into two major sets: Marxist (Chapter 3) and neoclassical (Chapter 4) approaches. In my comments at the end of the chapters I draw attention to elements in these theories that are relevant for the issues discussed in Part III.

Part III presents all the major modern theories of the TNC and its activities. It is structured in 14 chapters, starting with the theory of Steven Hymer developed as a doctoral dissertation in 1960 (Chapter 5). In this part, I have tried to be very inclusive, though I have no doubt that colleagues will find some missing authors or theories or some misrepresentation. I plead ignorance not deliberate neglect.

Compared to the second edition, the present one has one extra chapter in Part I and two extra chapters in Part III. Chapter 17 presents the Dynamic Capabilities Theory in the context of Penrose’s Resources Theory of the Firm. In Chapter 18 I reflect on the achievements and problems in extant theories in relation to ongoing changes in the economic system. The chapter offers also some thoughts on the approaches to the study of TNCs within economics and within the newer and growing field of international business.

Part IV presents a framework for the analysis of the main effects of TNCs’ activities. It is structured in five chapters dealing with: boundaries issues (Chapter 19); effects on innovation (Chapter 20); effects on labour (Chapter 21); effects on international trade (Chapter 22) and effects on the balance of payments and on the fiscal revenues of countries’ governments (Chapter 23). The thematic structure here mirrors a similar structure in Part I. In both parts this allows us to deal with the various relevant elements. In some cases historical perspectives will be touched on within the themes.

Suggestions for further reading are given at the end of each chapter. These are presented as indicative further readings, thus leaving to the individual lecturers the choice of alternative or additional suggestions. The end of each chapter has a summary box which highlights the key elements dealt with in the chapter. It also gives references to other relevant chapters in the book.

Most chapters and parts are self-contained and can be read and understood on their own. Therefore, teachers and students who are only interested in selected chapters of the book can still have the full benefits from them. However, the first two chapters contain concepts that are relevant throughout. For this reason, reference to these chapters is omitted from the suggested references to other chapters. The chapter on the issues of boundaries in the assessment of effects (Chapter 19) is essential reading for the following chapters on specific effects (Chapters 20 to 23).

The reader may notice some repetitions of concepts presented in slightly different contexts. This is a deliberate strategy – particularly in Part I – designed to

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¹ Further details on the content and structure of the book are in the ‘Preface to the third edition’.
facilitate the absorption of some key concepts. The book has a relatively low level of empirical content though data and cases are cited here and there. Detailed empirical results of theory testing or of effects are deliberately avoided for the following reasons. First, because there are just too many empirical studies out there and mentioning only a few would not have done justice to the existing large literature. Second, because empirical studies become obsolete very quickly as new ones are published. Third, because I wanted to have enough page space to concentrate on the fundamental concepts with regard to both theories and effects.

2 Do we need specific studies of the transnational firm and its activities?

There is now a very large body of literature on theories of the TNC and the subject has reached a suitably mature stage in which it becomes appropriate to present the material and controversies related to various theoretical approaches in a single volume.

Before dipping into the concepts and the details of the subject matter of the book, I should explain why I consider a study of TNCs and their activities important and indeed necessary in the current phase of capitalist development. To the lay person it would seem obvious that we need to study the activities of the most important economic agents operating today: transnational companies. Yet, though we see now and then in economics journals publications on FDI, the study of TNCs as a whole and of their multifarious activities has made few inroads into the main theoretical body of economics. Why is this so? We could dismiss this issue as just some evidence of the divorce between theory and reality on the part of many mainstream economists. There may be some truth in this but it is certainly not the whole story. Moreover, non-mainstream approaches fare no better on this issue.

To paraphrase Robert Solow – my old and excellent teacher at the MIT in 1967 – you can see the transnationals everywhere but in the economics curricula. There are deep reasons – linked to both methodology and subject matter – why economic researchers have been unable or unwilling to fit the TNC and its various activities into the main body of their theories. There are also very good reasons why the topic should now be given a stronger role in economics curricula and research. To both of these I now turn.

Let us begin with trying to see the reasons why the TNC and its activities have no place in economic theory. Let us assume for a moment a wholly theoretical world in which all national barriers and frontiers have come down; one single currency circulates; a single tax regime is in operation. In other words, the world becomes one single country/nation-state and is governed as such. In such a world we would have no theory of international production: there would be no need for it. We would work within the confines of spatial location theory to explain where production is located and with theories of the firm, business governance and market structure to explain the growth of firms, their boundaries, their organization and their behaviour vis-à-vis other firms. Thus we would not need a theory of transnational

ii Solow (1987: 36) wrote: “You can see the computer age everywhere but in the productivity statistics”
companies to understand *who* invests, *where* and *why*. Theories of transnational companies and of foreign direct investment are needed because we have nation-states and frontiers.

In fact we do not attach much relevance to the identity of the investors when they originate from other regions within the same nation-state, for example when a Texan firm invests in Michigan or a Tuscan firm invests in Calabria. Why should we consider the origin of the firm as relevant when it is from a foreign country?

In general, when analysing economic activities, economists tend to ignore the actual nationality of the investor. Instead, the main focus has been on issues such as: the firm in general or in relation to its size; the market structure of an industry; the production, investment or trade of the macroeconomy independently of the nationality of the firm producing, investing or trading. This is exactly what we do when we study, for example, international trade theory: we analyse the comparative conditions and advantages of the trading countries and/or the impact of trade on them independently of the national identity of the exporter firm. Why should we bother with such identity when the operator is someone investing in many countries?

Does this mean that theories of TNCs and foreign direct investment are redundant and trivial? Could it all be subsumed under theories of investment independently of the nationality of ownership or the investor? Or under the theory of the firm in general? Is there much point in developing theories of ‘international’ production and investment or the ‘international’ firm? Would not theories of production, investment and the firm take care of everything there is to know about the location of investment and production, and of the behaviour of firms and their entry modes into foreign markets?

This is indeed the – tacit – approach taken in most traditional economics departments in which the international economy is dealt with at the macro level by teaching and research into issues of international trade, the balance of payments and exchange rates. Moreover, at the micro level, theories of the firm and investment are not usually analysed in the context of the ‘nationality’ of the investor or the country in which the investment has taken place. Characteristics of companies other than multinationality (such as size) are considered in the context of oligopoly and of market structure theories in general. On the teaching side, multinational companies, their existence, growth and range of activities, are usually dealt with in a couple of lectures within a unit on industrial economics or the students are advised to attend lectures in a business/management department to learn about TNCs (see Ch. 18).

This traditional approach can indeed be justified if one takes the view that the nationality of the investor and the transnationality of operations make no difference to the geographical pattern of investment and production or to the overall amount of production or to its impact on the country where the investment takes place. Economists have traditionally looked into the identity of the investor, when analysing the investment by public versus private firms. The reason for this is clear: the public investor is assumed to have different *objectives* compared with the private one and therefore the private identity versus the public one does matter. However, this is not the case when the investor is a TNC. Whether the firm is foreign or domestic, whether it is a multinational or a uninational firm, the objectives are not different; they are profit or profit-related objectives.

In fact, the reason why in our case the uninational or multinational character of the investor matters, has nothing to do with objectives but with *strategies*, as will be argued later in the book and particularly in Chapter 15. The argument for specific studies of the TNCs and for their incorporation into the main body of the economics curriculum is that the existence of nation-states has a bearing on firms’ strategies.
Such strategies affect the levels and patterns of world investment, production and trade, and they affect the economic and social context in which other agents – such as labour, uninational firms or governments – operate. They do, in particular, affect the context of government policy. This is the main reason why a study of TNCs and their activities is important, and indeed basic, for an understanding of the activities of firms, industries and national economies in the global context. We shall return to these issues with more specifics in Chapter 15 as well as, now and then, in other chapters.

Notes

* The italics used in passages quoted from other authors throughout the book should be understood to be in the original text, unless specified otherwise.

1 The arguments in this section are further developed in Ietto-Gillies (2004).