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2. If Hymer were writing now[1]

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1. INTRODUCTION

Stephen Hymer was born in 1934, and died in a car accident 40 years later. In his short life he made several seminal and lasting contributions to the theory of the multinational enterprise (MNE), foreign direct investment (FDI) and 'multinational corporate capital'. Most particularly, he was one of the first economists to explore the relationship between the 'microcosm' of the territorial expansion of firms, and its consequences for international development and MNE–host country relationships.

Hymer first articulated his views on the determinants of FDI in his doctoral thesis, and later, together with his analysis of some of its characteristics and effects, in around 40 articles in leading economics and political economy journals. Of these, perhaps the most influential and frequently cited have been his thesis, completed at MIT in 1960 and eventually published in 1976; an article he wrote in French in 1968; a 1970 *American Economic Review* (AER) article; and another 1970 contribution to a book collection edited by J.N. Bhagwati on MNEs and 'uneven development', where he summarised and extended some of his views on the impact of FDI on the economic and social goals of developing countries (Hymer, 1960, 1976, 1968, 1970a, b).

The aim of this chapter is to consider whether and how Hymer's views on both the determinants and consequences of MNE activity might have changed if he were writing now – in the early years of the 21st century. In his absence, this is a risky and somewhat speculative task. It requires some methodological assumptions about Hymer's 'productive opportunities'[2] – that is to say, the interaction between his own evolving scholarship and that of his academic colleagues, and changes in the characteristics of firms and the external environment fashioning their behaviour. What follows then is very much the personal view of the two authors. Other scholars might well deal with the issues addressed in this contribution quite differently. The chapter proceeds in the following way. In the next section we provide a bird's eye view of Hymer's most significant contributions. In

Section 3 we explore the (possible) changes in Hymer's 'productive opportunities' 40 years on. Section 4 speculates on how Hymer's views might have evolved, had he become aware of post-1974 developments. Section 5 presents some conclusions.

2. HYMER, THE MNE AND 'MULTINATIONAL CORPORATE CAPITAL'

In his 1960 thesis, published by MIT Press in 1976, Hymer focused on the control or governance of the value added activities of firms – with particular reference to their international operations. He critiqued the extant theory of foreign portfolio investment (FPI) not only for its inability to explain some 'stylized facts' of FDI but, more importantly, for its failure to consider how the power, strategies and governance of firms might be affected as they crossed national boundaries. Having distinguished between the different modalities by which firms might extend their territorial ambit, for example by licensing, tacit collusion, joint ventures and FDI, he tackled the question as to why a firm would choose to own and/or control value added activities in a foreign country, despite the obvious costs of venturing into unfamiliar locations. He went on to suggest two major reasons and a minor one for this. Removal of conflict between firms in different countries and the profitability of exploiting firm- (or, in the nomenclature of the eclectic paradigm, 'ownership-') specific advantages through foreign operations were the two major ones. The benefits of diversification were the minor one – minor, because the achievement of these did not necessarily involve control of overseas assets.

In his PhD thesis, Hymer explained the act of FDI as a response to a range of market imperfections, mainly of the structural type (Dunning and Rugman, 1985). However, he did mention explicitly that, in choosing to own foreign value added activities, a firm 'substitutes', 'internalises' or 'supersedes' cross-border markets: 'The firm is a practical institutional device which substitutes for the market. The firm internalises or supersedes the market' (Hymer, 1976, p. 48). He also considered it fruitful to ask the question 'Why is the market inferior to the firm as a method of exploiting the advantages?' (Hymer, 1976, p. 48). He attributed such inferiority partly to problems of 'sequential monopoly' (pp. 48–9), and partly to his belief that cooperation through licensing is difficult because a 'bilateral monopoly problem is involved' (p. 51).

In his 1968 article, Hymer further developed this line of thought. He explicitly acknowledged, and built on, Ronald Coase's classic article (Coase, 1937 – of which he was apparently unaware at the time of writing his thesis[3]) by attributing the superiority of firms over markets to 'transaction costs'.[4] *Inter alia* such costs included those of searching for new customers, fixing a price, controlling quality, opportunism and incomplete information,[5] which, in turn, might partly reflect the imperfect knowledge of traders, and partly their practice of not being completely honest or transparent in their commercial dealings ('bending the truth and even lying', 1968, p. 12). He ascribed a firm's incentive to *vertically* integrate its cross-border value chain to its need to overcome the problem of 'bilateral oligopoly', lessen the 'risk of owning extremely specialized assets' (p. 17), and to counteract financial market imperfections and imperfect or asymmetrical information. Hymer identified the motives for *horizontal* integration as the desire to lower the transaction and coordinating costs of selling O specific advantages (or their rights) through the open market, and the need to face oligopolistic interaction and collusion. *A propos* the former, he considered trading in open markets as so 'complex and ill-defined that it is extremely difficult and sometimes impossible, to sell' (p. 22), to differential speed advantages in trading knowledge intra- versus inter-firm (p. 23) and to different perceptions (both honest and dishonest) of the value of an advantage (p. 29).[6]

In his 1970 *AER* paper, Hymer dealt with the efficiency/contradiction paradox of MNEs. He saw the two terms as synonymous, in so far as he identified the efficiency of MNEs as the efficiency of oligopolistic decision making, where private benefits need not also be social or systemic ones. In this article, Hymer drew on Alfred Chandler's work (Chandler, 1962) in proposing a 'law of increasing firm size' which asserted that 'bigness is in part paid by fewness and a decline in competition' (p. 54). While acknowledging that MNEs might transfer capital, skills and technology, to 'host countries', he argued that they may also reduce the forces of competition. As a consequence, he recommended that more attention should be given to international anti-trust policies and the protection – indeed encouragement – of local 'infant entrepreneurs' (p. 55).

In his 1972 article, Hymer recapitulated some of his earlier ideas on the MNE and FDI, and went on to complement his 'law of increasing firm size' with another, *viz* that of 'uneven development'. He also applied 'location theory' to the Chandlerian analysis of the evolution of the firm, in order to examine the relationship between the 'microcosm' and the 'macrocosm' of MNE activity.[7] This application of location theory to Chandler's analysis of the evolution of the firm led him to articulate a 'correspondence principle', the substance of which was to relate the centralisation of control within corporations to the concentration of control within the international economy (p. 23).

According to the correspondence principle, MNEs – and particularly large MNEs – aimed to shape the world to their image. In so doing, Hymer believed they would create superior and inferior states, each representing cores and hinterlands of decision taking. The structure of income and consumption would tend to parallel the geographical distribution of status and authority. Through a hierarchical 'trickle down' or 'demonstration' effect, new innovations and products would be introduced, first in the core cities and states (the 'metropoles'), and then 'trickle down' to those in the hinterland, reinforcing patterns of authority and control.

The need of MNEs for both markets and access to essential primary products would lead them to favour a location in less developed countries. Yet this could result in a dependent and uneven development. In cases where the increasing power of MNEs was likely to erode that of nation states, it would do so but asymmetrically; less so for 'strong' than for 'weak' states. The diminution of the power of national governments would create a need for MNEs to mobilise new sources of authority to fill the governance vacuum created. This, in time, according to Hymer, would bring about the emergence of a variety of supernational organisations, and would help create an international capital market, the spread of international production and, in due course, a system of global governance.

Throughout his writings, from his PhD thesis onwards, Hymer emphasised that competition between MNEs would eventually lead to a global collusion of enterprises, through an 'interpenetration of investments' and market sharing. While fully cognizant of the efficiency enhancing properties of MNEs, he always chose to emphasise his belief that their activities and decision taking strategies would lead to a state of international collusive oligopoly. The perceived distortions and the unfairness of such a state of affairs led Hymer to propose a socialist economic system of the central planning type as a better and more equitable way to organise national production than the market route. While he did not predict the demise of multinational corporate capitalism, he expressed some hope that this would happen (1970a, p. 135).

Taken as a whole, Hymer's several contributions predated much of the extant theory of the MNE, such as the transaction-costs-internalisation analysis of Buckley and Casson (1976), Rugman (1981) and Hennart (1982), and the eclectic paradigm of Dunning (1977).[8] He even developed in his 1968 article an M-form hypothesis which he attributed to external capital market failures (very much like Oliver Williamson's) (Hymer, 1968, p. 14). Interestingly, moreover, Hymer forecasted a move towards the externalisation of the cross-border activities of MNEs! In particular, he claimed that MNEs would reconfigure their modalities of exploiting their competitive advantages towards outsourcing production, particularly to smaller subcontractors (in Cohen *et al.*, 1979, p. 248).[9]

While all these issues are linked to efficiency, in his writings Hymer continually emphasised issues of collusion and control, by pointing out that private efficiencies need not imply systemic efficiency. In his view, unfettered market forces could not be relied upon to foster the optimal path. Indeed the private interests of the MNE, 'would be to foreclose competition to restrict the choices offered and to ensure the survival of their own organisation' (1970b, p. 57).

3. THE MNE AND MULTINATIONAL CORPORATE CAPITALISM POST-HYMER

Hymer's approach to the theory of the MNE and FDI consisted in applying a well-developed conceptual framework to the 'stylized facts' of MNE activities. As we have seen in his thesis, he paid particular attention to the *raison d'être* for, and consequences of, the control exercised by US MNEs over their foreign value added activities. In his later writings, he extended his analysis to cover the 'interpenetration' of investments and market sharing by MNEs of today's 'Triad' (US, Europe, Japan).[10] In the course of his scholarly research, Hymer observed firms growing bigger and bigger, outcompeting smaller rivals. However, he also predicted that MNEs would increasingly engage in outsourcing of their lower value added activities, thus relieving themselves of some of the burden and risks of foreign ownership *per se*. High fixed costs, low marginal costs, and (thus) attractive economic rents on the additional products sold, motivated continuing expansion. Maturing developing markets provided the 'push' factor, while robust demand in Europe and (later) in Japan were the leading 'pull' factors. At the time of Hymer's thesis, MNEs were investing in developing countries, to take advantage of low labour costs, and to secure the supply of foodstuffs and raw materials. Later, the recovery and resurgence of the European and Japanese economies, and the growing attractions of the US economy to other Triad investors, became an important determinant of the growth of FDI and MNE activity.

Hymer experienced an era where inter-firm competition was predominantly based on the economies of large size, and conducted between oligopolists. At the time, both 'planned economies' and planning through large hierarchies in 'market economies' were the order of the day. Centrally planned economies could adopt mass-production methods on a national scale, and compete head-on with those of market-based economies. There was little sign, in the late 1960s and early 1970s, of the ability (or, indeed, the willingness) of any developing country to 'take off' and pursue an independent development path. To Hymer, even his own homeland, Canada, looked more like a colony than a nation. He felt like an 'alien' in a land controlled by big (often foreign-owned) business and government. As he saw it, the primary concern about MNEs was about their efforts to protect or enhance their monopolistic advantages, developed in home markets, through territorial expansion. To Hymer, the eventual appearance of MNEs from developing countries was difficult to envisage. Also, as – to his mind – foreign expansion pre-required O advantages, it would be hard to envisage 'born global' MNEs or, indeed, the huge expansion of small and medium sized MNEs.

Hymer's time was also one in which neoclassical economics dominated; yet its tenets were being increasingly challenged by a vocal number of radicals, including several from the 'Marxist' school of thought. Hymer himself made his 'cathartic' commitment to Marxism in 1967. Earlier, he had received solid training in mainstream economic theory, at MIT, such as that supervised by the doyen of international economics – Charles Kindleberger. In his 1968 paper, he embraced Coasian analysis alongside more traditional Bain-type oligopoly (industrial organisation – IO) theory as extant, and set himself the task of applying these to the case of international direct investment.[11] Crucial elements of the then (and to a large point current) IO (but also transaction costs) perspective were, first, its comparative static nature, secondly, its assumption of perfect knowledge and a given technology, and thirdly, its treatment of inter-firm cooperation, mainly as price collusion. Marxist theory at the time, as for example promulgated by Baran and Sweezy (1966), differed little from the neoclassical monopoly models. It applied a variant of 'collusive oligopoly' to all the major sectors of developed economies. Small firms, in this context, were very much seen as a remnant of the past.

As Kindleberger (1984) observed regarding the post-Hymer theory of the MNE, '*plus ça change*'. While Kindleberger tried to show that *à propos* the theory of the MNE, little new has happened, in more recent years we would assert that some things have changed, a selection of which we shall now describe.

3.1 The Geography of MNE Activity

Concerning first the geography of MNE activity, since the time of Hymer's writings, both in terms of its share of leading MNEs and of the stock of outward and inward FDI, the US has lost most of its earlier dominance (see, for example, various reports of UNCTAD (as listed in the references)). By contrast, that of Europe and Japan has substantially risen but, in the case of Japan, experienced a sharp decline in the 1990s (UNCTAD, 2002, 2003). At the same time, the spatial distribution of FDI shifted from the developing to the developed world. By 1990, the vast majority of the developing countries had to make do with as little as 20 per cent of inward investment, the other 80 per cent going to the Triad region and Australia. This might have led to a 'competitive bidding' by both developed and developing countries competing for inward FDI.

Declining trade barriers, reduced transportation costs, dramatic advances in information and telecommunications technology (ICT), the emergence of important new economic players from the developing world – notably China, India and the Asia Pacific 'tigers' – have all helped widen the geography of FDI. Changing attitudes by the MNEs have yet again shifted the landscape. Over the past few years FDI, both to and from developing countries, has been increasing at a faster rate than that in and out of developed countries, and is predicted to continue to do so through to 2011 (EIU, 2007). In 2006 the stock of FDI directed to developed countries had gone down to 70.4 per cent from 79.5 per cent in 1990 (UNCTAD, 2007).

Dramatic developments, that have arguably facilitated this process, have occurred at both a regional and a global level (UNCTAD, 2007). Most centrally planned economies have moved to the market system, opening up to inward FDI. Globally or regionally integrated MNE activity relative to 'stand-alone' market or market seeking FDI, particularly in the industrialised world, has markedly risen (UNCTAD, 2007). A 'new' (Schumpeterian) type of competition, based on flexibility, product differentiation, customisation, speed and customer focus, has transformed the way through which MNEs try to upgrade competitive advantage. Efficiency- and asset enhancing FDI have become part and parcel of the attempts by MNEs to compete globally by tapping into the best resources, skills, competences, institutions, wherever they may be in the world.

At the same time, MNEs have emerged from developing and transition economies (Sauvant, 2008) and these have further challenged the *status quo* and have led to enhanced competitive pressures for incumbents.[12] The shift in emphasis from cost and price competition to differentiation and focus, alongside (and in relation to) dramatic changes in ICT, such as the internet, and the rise in e-commerce, have led to a knowledge and service-based economy, where information and innovation are the key drivers of economic growth. Increasingly too, service MNEs are following their manufacturing counterparts by setting up offshore routine and labour intensive operations.[13] In turn, these developments have helped foster small and medium sized MNEs that simultaneously start up business in more than one country to exploit global 'locational' advantages.

The last few decades have also experienced the rise of MNE activity by the Asia Pacific 'tigers'. Such firms, apart from those of Indian origin, have

relied on autocratic, nationalist government intervention to promote their entry into global markets. Earlier, some of these same governments had selectively encouraged inward FDI – but only insofar as it was embedded into the local economy and facilitated non-dependent, non-even (in the positive sense) development. Some developed countries, such as Ireland and the UK, have developed active inward FDI policies. It would be hard to define such countries as 'dependent' in Hymer's sense. Calling Canada more than a colony but less than a state would certainly ring less true today than it did in the 1960s.

Furthermore, the 1980s and 1990s saw an increasing number of MNEs refocus on adding to and exploiting their core competences (Doz, Santos and Williamson, 2001). At first sight, downsizing, contracting out and other outsourcing activities seem to have halted Hymer's 'law of increasing firm size'. However, the uncoupling of ownership has not always lessened the control and influence that MNEs exert over their suppliers and industrial customers. Examples include pricing and quality control, exerted by industrial and retail companies such as Nike, Benetton and WalMart over their subcontractors; and more recently that exercised by a host of MNEs currently setting up off-shore call centres in developing countries (UNCTAD, 2004). Yet other types of inter-firm cooperation have also emerged such as joint ventures, strategic alliances and even firm 'clusters' (Dunning, 1997; Contractor and Lorange, 2002). In such cases it is difficult to identify a single centre of control. Yet, although its form may have changed, elements of market monopoly power and centralised governance most certainly continue to exist, and are practised by many of the world's largest companies.

The advent of global sourcing has also changed the institutional and organisational structure of MNEs. The M-form and, more particularly, hierarchical forms of organisation have, in certain cases, given way to more segregated, heterarchical, federalist-type and cooperative forms of governance which *inter alia* are designed to seek and manage foreign-based resources and capabilities on behalf of their parent companies (see Birkinshaw and Hosa, 1998).[14]

3.2 Scholarly Thinking

Following Hymer's thesis and major contributions, notably from McManus (1972), Buckley and Casson (1976), Williamson (1981), Rugman (1981), Hennart (1982) and others, the extant theory of MNE activity can be usefully summarised by drawing on Dunning's eclectic or OLI paradigm.[15] In this, 'O' stands for the 'ownership' advantages of firms relative to those of other firms, and which specifically reflect their country of ownership. It relates to Hymer's analysis of firm specific (monopolistic) advantages. However, in Dunning's view, at least part of these advantages is better described as 'competitive' in the sense that they arise from the superior efficiency of the investing firms (Dunning, 1988, 2001a, b). 'I' stands for 'internalisation', the idea being that, for the market for these advantages to be internalised, there must be efficiency gains of so doing, in terms of transaction (*vis-à-vis* internal organisational) costs. 'L' stands for the immobile assets of countries. It aims to explain the geography of MNE activity in terms of the costs and benefits offered by alternative locations.

Dunning's perspective serves as a useful framework that encapsulates most of the main extant ideas on MNEs and/in their evolving context. Related concepts build on Hymer's focus on control and oligopolistic interaction and the integration of 'market power' and/or oligopolistic rivalry factors; see for example Knickerbocker (1973) and Graham (1978). A variant of these theories also deals with (Hymer's focus on) MNEs' abilities to 'divide and rule' labour; see notably Cowling and Sugden (1987).

Internalisation theories come in a number of shapes and forms. In Buckley and Casson (1976), for example, the focus is on the kind of market failures which result from problems associated with protecting the quasi-rents derived from the sale of intermediate products. Williamson (1981) zeroes down on the transaction costs resulting from ex-post bilateral monopoly problems arising from asset specificity. Hennart (2000) goes back to Coase, and emphasises the superior capabilities of MNEs to control foreign labour, which leads to lowering of both transaction and production costs. Kogut and Zander (1993) prefer to focus on the unique abilities of MNEs to create and utilise the kind of knowledge which cannot be easily traded in open markets. If so, what explains internalisation in their view is not the presence of market failures *per se*, but the superior resource and institutional capabilities of firms – *vis-à-vis* both markets and other firms – in transferring tacit knowledge across borders.

There are various other theories and analytical insights which it is possible to trace back to Stephen Hymer's work, including that of the MNE as an instrument of risk diversification (Rugman, 1979, 1981). To these Hymer (1979) himself later added the benefits of multinationality *per se*, including, for example, an increased bargaining power that territorial expansion was likely to confer upon firms *vis-à-vis* individual states and labour interests.[16]

Subsequent work on the 'new international trade theory' (e.g. Krugman, 1986), the role of the MNEs in 'new trade theories' (Markusen, 1984, 1995, 2001), game-theoretic models of 'exchange of threats' (Graham, 1975), the literature on the agglomeration of firms and the new location economics (Krugman, 1998a, 1998b; Audrestch, 1998; Porter, 1990; Enright, 1999, among others) are all relevant in conjecturing on the question 'If Hymer were writing now. . .?' The same is also true of the resource and knowledge-based views of the firm (Barney, 1991; Wernerfelt, 1984; Foss, 1993, 1996) in so far as these are applicable to MNE activities (Pitelis, 2000). Developments in neo-Marxist theory of competition, such as Clifton's (1977) are also pertinent. Important developments in the IB literature, including a recent critique and extension of the OLI paradigm, are contained in Dunning (2001a), Dunning and Lundan (2008) and Cantwell and Narula (2003): Table 2.1 (adapted from Dunning, 2001a) summarises some of the above. Below, we focus on some selected issues from the IB and economics literature which we feel impact particularly on Hymer's thoughts and writings.

Of the ideas pre- (or apparently unbeknown to) Hymer, and which seem to us particularly relevant to his writings, we might cite those of Allyn Young (1928) and Edith Penrose (1959). Allyn Young had put to test Adam Smith's idea that the size of the market limits the division of labour of firms. Pointing to increasing returns, Young had claimed that the division of labour itself and the increased specialisation of economic activity could help extend the market. This was a fundamental insight that provided a more dynamic view of capitalism than Hymer's. Hymer had adopted Adam Smith's dictum to the case of the firm, claiming that increasing firm size automatically leads to increase of concentration (Pitelis, 2002). However, if the actions of the firm themselves extend the market, it must be that firm size increases at a faster rate than that of the market itself before one can suggest that concentration (and the possibility for collusion and monopoly) increases.

Edith Penrose's classic work (1959) centred on the way in which excess resources generated through intra-firm knowledge creation and learning might act as an internal (endogenous) stimulus to growth. In many ways, her thesis complements and adds a new dimension to that of Hymer. But, unlike Hymer, she provides a production-efficiency-based theory of firm growth. For Penrose, firms 'productive opportunities' (the interaction between 'external' and 'internal' environments as perceived by the firms' management) determine both the extent and pattern of a firm's expansion.[17]

More recent developments on the benefits of location, agglomeration economies, inter-firm cooperation and clusters strengthen the view that location matters, that cooperation need not imply collusion and that small firms (in clusters) can have advantages *vis-à-vis* MNEs.[18]

Game-theoretic approaches to MNEs also provide some support to Hymer's views on interpenetration of investments and market sharing. Hymer's plea for an application of 'oligopoly theory' to international

Table 2.1 The evolving global landscape and scholarly thinking on the MNE and FDI

1970s–1980s	1990s–2000s
FDI mainly undertaken to exploit O specific advantages of investing firms; one way flow of resources and capabilities	Multiple motives for FDI; more global sourcing of assets
O advantages largely based on privileged possession of (home) country specific assets (Oa)	O advantages more firm specific and related to degree of multinationality, and ability to harness and utilise created assets throughout the world
Clear cut choice between alternative modalities of exploiting O advantages (licensing compared with FDI, etc.)	Systemic approach to organisation of MNE activities. Alternative modalities often complementary to each other. More institutional pluralism
Comparatively little foreign-based innovatory activity; foreign affiliates less embedded in the host countries	Considerable foreign-based innovatory activity (carried out mainly in advanced industrial countries) and/or via strategic alliances with foreign firms
Locational choices made mainly in respect to asset usage	Locational choices also made with respect to asset augmentation
Relatively little attention paid to 'spatial' market failure and location specific external economies and advantages from non-collusive, inter-firm cooperation	More attention paid to gains arising from being part of a complex, or cluster, of firms, and from spatially linked learning economies
Significant inter-country barriers to both trade and FDI	Reduced barriers to trade and FDI
Role of MNE affiliates mainly to carry out delegated value added activities by parent company	Affiliates now regarded as integral part of asset augmenting activities of MNEs of which they are part; nature of OLI variables; and to extend the theory to embrace path dependent asset creation and learning capabilities
Hierarchical organisational structure of MNEs	Flattened pyramids; more heterarchical structures; more delegation of responsibilities to line managers
Cautious attitudes by many governments to FDI	Welcoming attitude to FDI by many governments – 'competitive bidding' to attract FDI
Development mainly dependent	Some independent development, often through FDI
Static nature of major paradigms	Better appreciation of need to consider dynamic aspects of IB activity

Table 2.1 (continued)

1970s–1980s	1990s–2000s
Few attempts to integrate inter-disciplinary approaches to understand MNE activity	Recognition of need to draw upon inter-disciplinary theories to construct a meaningful and robust systemic paradigm of MNE activity

Source: Adapted from Dunning (2001a).

trade was later taken up by Krugman (e.g. 1986), who largely endorsed Hymer's expectations, particularly in respect of protectionism and strategic trade. The incorporation of the MNE into such models embraces new analytical insights into such elements as joint inputs, 'internal economies' and 'intangible assets'. These elements, as well as that of transportation costs, can serve to explain FDI in both developing and developed countries (Markusen, 2001, 2002). Such models are also in line with Hymer's analysis. Interestingly too, the focus on the resource-based theory of the firm is entirely consistent with the tenor of Hymer's PhD thesis.[19]

The complexity of continuity and radical change emerging from stylised facts and the theoretical developments presented in the last few pages suggests that the question 'if Hymer were writing now' is not an easy one to answer. This is compounded by the possibility of an unobservable variable (and an influence on Hymer's thought); *viz* developments in his academic career and personal life. The latter is bound to be unobserved so any guesses here can only belong to the realm of metaphysics. Still, we believe we have a sufficient appreciation of the person, his work and his environment, and of changes in the global and economic scenario and advances in scholarly thinking, to attempt a highly personal, yet (hopefully) reasoned answer to this question.

4. IF HYMER WERE WRITING NOW

A reconfiguration of the global landscape, the objectives and strategies of MNEs, and advances in economics and international business theory, impact upon almost everything Hymer has written. To assess this impact from Hymer's likely perspective of these events, we propose to divide our discussion of his contributions into a number of broad categories. We can then try to assess how the developments identified in the previous section might have affected Hymer's analysis, and then speculate a little on whether and how he might revise his views were he writing in the early 2000s.

In this context, we shall focus on what we perceive as Hymer's five most incisive earlier ideas, which, in their totality, both span his major contributions to our understanding of the MNE, but also point to some of the limitations or lacunae in his analysis. These are:

1. the 'law' of increasing firm size;
2. the theory of the MNE and FDI;
3. interpenetration of cross-border investments and market structure;
4. the concept of uneven development; and
5. the benefits of 'central planning', as opposed to the hierarchical response to market failures by MNEs.

4.1 The 'Law' of Increasing Firm Size

Hymer might have felt justifiably content to see his predictions on the growth of outsourcing confirmed. Today, MNEs in manufacturing, but also in services (e.g. call centres), are increasingly outsourcing parts of their operations, both within nations and across borders. We believe that Hymer would agree with Cowling and Sugden (1987) and UNCTAD (1993, 2004) in their assertion that, in so far as such activities are controlled or influenced by centralised decision taking, they should be usefully considered as part of the MNE's system. While *de facto* this would create problems of measurement of the size and boundaries of MNEs (UNCTAD, 1998, 2007), and thus of global concentration, it would not call into question the 'law' as a tendency.[20]

Hymer might have felt similarly about the growth of inter-firm cooperation, joint ventures, strategic alliances, inter-firm networks, and the like (Dunning, 1997; Contractor and Lorange, 2002). Given his thoughts on the resource and transaction-based views of the firm, he would probably not have a problem in accepting that firms might conclude such cooperative agreements not only for control purposes, or because of a lack of alternative modalities, but also to access, augment or share knowledge, competences and institutions in order to protect or advance their global competitive positions. At the same time, he might well argue that such trends may enhance the tendency for firms to expand further, so adding to their market power, and hence sustaining his 'law'.

Given the dynamics of capitalism (with some firms being outcompeted by newcomers etc.), the acid test for Hymer would probably be the extent to which any advances in the efficiency of firms are outweighed by some of the downsides of increases in regional or global concentration. An

increase in this share might confirm the 'law'. A decrease might question it, provided of course, that outsourcing controlled by MNEs was included in the figures. While reliable data are not available,[21] the upsurge of mergers and acquisitions in the 1990s and in 2004/6 does lend some support to the continuing importance of large firms in the world's economy, even though (at the same time) the number of medium and small sized MNEs mushroomed (Chandler, Amatori and Hikino, 1997; UNCTAD, 2000, 2003, 2007).[22] Accordingly, Hymer might feel justified in thinking that his 'law' is yet to be disproved.

4.2 The Theory of the MNE and FDI

From his two major reasons for FDI (benefits from removal of conflict and ownership advantages), Hymer would probably feel comforted that his 'removal of conflict' theory has received theoretical support by subsequent game-theoretic approaches (e.g. Graham, 1978, 1990, 2000). Had he studied Edith Penrose (1959) he would probably have endorsed her ideas as a useful add-on to his own. In particular, he might have considered Penrose's views on endogenous firm growth and her explanation of intra-firm advantages as a complement to his own analysis of the motives for growth (e.g. low marginal costs, removal of conflict, etc.). However, with respect to more contemporary developments almost certainly he would wish to revisit his views of the *raison d'etre* for internalised markets in the light of the growth of efficiency and strategic asset seeking FDI. He would, we think, be particularly sympathetic to the views expressed in the various knowledge related theories of the MNE as, for example, articulated by Kogut and Zander (1993) and Cantwell (2002); and particularly so, in so far as they dynamised some of his own perceptions.

In evaluation of these and the resource-based theories, we believe that Hymer might wish to acknowledge that the O specific advantages on which the theories are based, and particularly those to do with the coordination of geographically dispersed assets, need not always be an expression of the power to capture value, but also of increased ability to create value (Dunning and Pitelis, 2008). The ability of firms to generate dynamic O specific advantages and to exploit the benefits of institutional and relational assets (e.g. as set out in Caves, 1996 and Dunning, 2003) is something we believe Hymer would have taken up in his later writings.

Hymer is unlikely to have felt that the emergence of asset augmenting FDI, and the devolvement of higher level activities and decision taking to MNE affiliates (Birkinshaw and Hood, 1998; Rugman and Verbeke, 2001) are a substantial challenge to his earlier views. Such trends are in line with a more globally integrated approach to the acquisition of O specific advantages, and are perfectly consistent with the proposition that by such actions the economic power of MNEs might be increased. Similarly, we believe that Hymer would view the emergence of MNEs 'born global', as no reason to modify his analysis of the determinants of FDI – save that he would have to acknowledge that, *ab initio*, at least part of the source of such advantages might be outside the home country. However, we think he would continue to contend that what is important is not so much the origin of these advantages but for what purposes they are being deployed. Here, Hymer would probably concede the likely positive welfare implications of global sourcing, although he would ask whether these were stronger than those which might be obtained through central planning by the state. We shall touch upon both these issues (monopoly and central planning) later.

We believe, if Hymer were writing now, he would pay more attention to the geography of MNE activity. In his thesis and subsequent articles, locational factors appear under three guises. First, the 'spatial' division of labour, which he examines as a means of the subjugation of labour. Secondly, his analysis of the competitive assets and comparative advantages of developing countries, in terms of their resources, market opportunities, institutional and cultural uniqueness, and so on. Thirdly, the application of 'location theory' to the MNEs as a means of deriving his 'correspondence principle' (see Section 2). Given the above, and the developments of the last decades, we believe that Hymer would certainly have accepted the need to reprioritise and introduce new variables now determining the global locational strategy of MNEs.[23] He would also, we think, better recognise the need for contextualising explanations for the location of FDI. Having already observed the dual pressures of MNEs to balance the advantages of global integration and centralisation, on the one hand, and local adaptation and decentralisation on the other, he would probably consider developments such as Bartlett and Ghoshal's (1989) as extensions of his views. We suspect, however, that Hymer may well have paid more attention than most other economists to the ways in which MNEs might use their economic influence of power to influence the locational advantages offered by various countries, and particularly those within the aegis of host governments to affect. He would also, we surmise, have paid more attention to institutional, cultural and social determinants influencing the location of FDI.

Finally, we believe that Hymer would be the first to recognise that contemporary locational attractions, such as agglomeration efficiency and external economies, and locally based inter-firm cooperation, such as clusters, needed to be incorporated into mainstream IB theory (see also Chapter 6 of this volume). One reason is that these represent potential national development sources, of use for his ideas on development (see below). Moreover, such locational advantages may serve as a magnet for inbound FDI. In all, it is likely that Hymer would take on board more seriously the determinants and consequences of the locational portfolio of MNEs. Concerning the theory of the MNE itself, he would probably consider formal economic models such as those of James Markusen (1995, 2001) that rely on transportation costs, fixed costs and joint inputs, and intangible resources, to explain the choice of mode (e.g. FDI versus licensing) as being in line with, and in part based upon, his own ideas.

4.3 Interpenetration of Cross-border Investments and Market Structure

Throughout his writings, Hymer was well aware of the emerging competition to US MNEs from those of other developed countries, first from those in Western Europe and then Japan. Indeed, he predicted that initial stages of fierce competition between MNEs would eventually lead to an equilibrium characterised by global collusion through interpenetration of investments, and market sharing (Hymer, 1972, p. 122). In this context, the incorporation of such events as European and North American integration, and their impact on the geographical composition of outward FDI, into his analysis would cause him little difficulty. He would be able to claim that these new sources of competition would first lead to a competitive struggle, which would eventually lead to a global collusive quasi-equilibrium state.

Harder for him to explain, we suspect, would be the emergence and growth of MNEs from developing countries – a phenomenon not fully in line with his 'correspondence principle' – and his views of host country firms as dependent on MNEs. (We deal with this in the next subsection.) However, more important problems with the 'global collusive oligopoly' issue arise from other sources. The first of these is Hymer's reluctance to appreciate that the strategy and activities of MNEs may themselves extend the market, so that concentration will only increase when that of firm size outpaces that of the market. This makes global collusive oligopoly harder to achieve. Penrose's concept of 'interstices' and the renewed interest in the importance of SMEs would also be hard to reconcile with the global monopoly thesis. As SMEs (and clusters) increasingly become a source of new firm growth and competition, the chances of few metanational firms, achieving eventual global dominance, becomes less realistic. This also has crucial implications for the question of efficiency. Hymer's critique of the MNE was predicated on the emergence of 'global monopoly' as a means of value capture, not on the efficiency properties of MNE advantages (value creation), of which he was perfectly aware. In the absence of global monopoly, the efficiency (value creation) advantages issue becomes far more important (Dunning and Pitelis, 2008).[24]

Concerning the issue of 'global collusive oligopoly', it would appear that a reliance on static neoclassical analysis of the Bain type and that of Marxist analysis of the Baran and Sweezy type, and on the perceived failures of capitalism, may have led Hymer to what now seem to be a number of weak assertions and predictions. When observing today's developments, he might have to concede that one of the major tenets of his thesis is far less secure now than it appeared to be 30 to 40 years ago.

4.4 Uneven Development

It would appear that, on balance, post-Hymer economic and social development has been just as uneven as he had earlier predicted. Large parts of the world have hardly progressed, cross-country inequalities of incomes seem actually to be rising or at least not going down (World Bank, 2005; Hill, 2003). Despite debate, it would not appear that convergence is yet on the agenda – at least between the wealthiest and poorest countries. Having said this, it is not the case that post-Hymer development has been only dependent and uneven (in favour of developed countries). A number of nations, especially from Asia Pacific, have managed to catch up – and inbound FDI has helped some to achieve this – notably, in the cases of Singapore, Hong Kong, Taiwan and most recently in China. Indeed, even during the period Hymer was writing, he was observing the renaissance of Japan as a major industrial power. It would appear that he underestimated the role and power of the state and the local capitalist class in developing capitalist countries in initiating institutions, and pursuing policies and mechanisms to promote the kind of economic development they were seeking. While development has often been uneven, and dependent (at least in the beginning) on foreign technology and/or capital, Hymer would probably accept now that exceptions to his analysis were possible. Undoubtedly, however, he would continue to point to the otherwise ubiquity of dependent and uneven development – especially in parts of Latin America and sub-Saharan Africa.

The question arises, of course, as to whether, and how, such exceptions may become the rule. As developing countries learn from the successes of other such latecomers, perhaps we will experience more catching up. Hymer might have to concede that an answer to this question requires a fuller analysis of the role of the state in developing countries as an agent of economic development, and similarly that of the local capitalist class. It would have been exceedingly interesting to have had his views on the Chinese political and economic response to globalisation. Perhaps it is true, as Hymer claimed, that the immediate interest of local capitalists is to

join the global elite. Yet, it could well be that, in certain cases, the best way to join is from a position of strength, for example as the Koreans earlier did, and as India is now doing. Also 'nationalism' could help act against the 'immediate interests' of indigenous capitalists.

4.5 Central Planning

Hymer did not go as far as to predict the growth of centralised planning. Indeed, he believed that the relative forces for and against capitalism could not guarantee an eventual overthrow of multinational corporate capitalism. However, he did hope for it and chose to prescribe it as a better alternative to that of planning by the MNEs (1970a, p. 135). Since the time of his writing, central planning has collapsed in most countries. The efficiency and value creating advantages of MNEs and the market economy have strengthened, and the case for a state of 'global monopoly' has weakened. In addition, the ability of states in some developing countries to effect the kind of economic development they are seeking, to pursue competition, anti-trust and other policies such as policies for small firms (and cluster) creation and support, and keep at bay the possibility of global collusion, has become more evident.

On balance, it would appear that if Hymer were writing today, he would need to place less faith in the ability of a 'socialist' state to run a centrally planned economy, and more faith in an institutional configuration that involves planning markets to advance socially acceptable development. Similarly, Hymer would probably concede that he had paid too little attention to the desires and abilities of the domestic capitalist classes to effect an independent development. On the other hand, we believe he might endorse Douglass North's view that strong extra-market institutions are necessary to ensure that market forces operate in an efficient and socially acceptable manner (North, 1990, 1999, 2005). If Hymer were writing today, he would probably spend more time in analysing and identifying the ways in which the various constituents of global capitalism might work together so as best to promote developmental and other goals (Dunning, 2001b). It would appear that Hymer's faith in central planning was greatly influenced by prevalent Marxist ideology of his time and his neoclassical/Marxist prediction of 'global monopoly'. Today, he would probably revisit both these ideas; but, like several contemporary economists, notably Amartya Sen (1999) and Joseph Stiglitz (2002) – some of whose views and recommendations he might have felt he had predated – would continue to press for the overhaul of some of the major supra-national agencies and for national and global governance which is sensitive to the needs of the worse-off, as well as to the environment and (thus) economic sustainability.

5. CONCLUDING REMARKS

Developments in the global landscape and scholarly research over the past three decades, both confirm and question some of Stephen Hymer's analyses, predictions and prescriptions about the determinants and effects of MNE activity and FDI. Post-Hymer theory and practice seem to question the strength of the global monopoly thesis and his prescription for central planning as a preferred alternative to the market as a vehicle for resource allocation and economic development. It now appears that a state of global capitalist big business competition, spearheaded by large MNEs, combined with small firm creation and growth, appropriate institutions and regulatory mechanisms and – particularly *a propos* innovation policies, entrepreneurship and SMEs (small- and medium-sized enterprises) – both at a national and supra-national level could offer an economic and social system which is more sustainable than envisaged by Hymer. Put differently, if a state of eventual global monopoly is ever to be achieved, it still seems well far-off. Thus, the efficiency (value creation) advantages of MNEs, and the emergence of many new extra-market actors on the global stage, question Hymer's faith in central planning. If he was writing now, it is these two theses that he would probably revisit.

Our assertion that Hymer would recognise such notable weakness of his thesis need not imply that he would no longer be a (neo-) Marxist. Personal as our assessment is, we could not go as far as trying to assert this. All we are suggesting is that were Hymer still to be a neo-Marxist, his views are more likely to have evolved in the path of, for example, Cowling and Sugden (1999), who build explicitly on Hymer to explore the benefits of inter-firm cooperation and democratic decision making and governance by 'localities', as a better alternative to both central planning and planning by the MNE.

On a more positive note, much of what has followed in terms of theory and practice would seem to be broadly in line with Hymer's most insightful analysis. He would almost certainly attribute a more prominent role to the innovatory role of MNEs in value creation, to coordinating attributes of internalisation, to analysing the unique characteristics of third world MNEs, to evaluating the determinants and impact of cross-border mergers and acquisitions, and to paying more attention to locational factors influencing FDI – including ways in which clustering of related activities might enhance the national competitiveness of developing countries.

Theory and experience would also probably lead Hymer to increase his faith in the part played by SMEs and the state in developing and developed capitalist countries but also in the interests of the local capitalist classes and civil society in independent development. We believe that he would have wished to give more attention to the institutions affecting and being affected by MNEs, and to the strengths and weaknesses of supra-national institutions in setting the 'rules of the game' within which MNEs operate. He would probably be at the forefront of commenting on and analysing the Chinese government's use of inbound and outbound FDI and sovereign wealth funds as a catalyst for economic growth and restructuring. In each and all of these respects, we believe he would share some thoughts by, for example, Keith Cowling, Amartya Sen, Joseph Stiglitz and Douglass North. For, at the end of the day, Stephen Hymer viewed the foreign activities of firms from the lens of a political economist and we would argue that it would be in this capacity that, if he were writing today, he would continue to build on his most substantial contributions.

NOTES

1. This is a revised version of a joint paper originally submitted to the *Journal of International Business Studies* in 2004. In the event, a rather different paper was published (Dunning and Pitelis, 2008), which focused on the distinction between the value creating and value capturing functions of MNEs; and how they have changed in the last few decades. This chapter presents a more speculative and personal view on how Hymer might have modified or changed his own views in the light of the global economic events and advances in scholarly thinking since the early 1970s.
2. We borrow Penrose's (1959/1995) apt terminology here, but apply it to a person (while Penrose applied it to the firm).
3. Neither, incidentally, was his supervisor – Charles Kindleberger – as admitted in private correspondence with John Dunning in 1986 (Dunning, 2006).
4. Originally termed 'marketing costs' by Coase (1937).
5. As later identified and analysed by the internalisation school of economists, for example Peter Buckley and Mark Casson (1976), Alan Rugman (1981) and Jean Francois Hennart (1982).
6. For more extensive discussions of Hymer's contribution to transaction costs thinking in international business scholarship, see Casson (1990), Horaguchi and Toyne (1990) and Pitelis (2002).
7. In both his 1970 and 1972 papers, Hymer took on board some of the broader issues associated with the political economy of multinational corporate capital. These two contributions and a collection of his articles in Cohen *et al.* (1979) are an excellent source of Hymer's views.
8. See also Casson (1990). The genealogy is set out and analysed in Dunning (2003).
9. Hints at the contemporary situation of outsourcing rather than FDI by garment, shoe, motor vehicle and electronic components manufacturers.
10. On the argument that MNE operations are (remain) Triad based, see Rugman (2000).
11. For the most part, the theory of international trade at the time regarded the firm as a black box. Even Ray Vernon's (1966) product cycle theory of international trade and investment addressed itself to the activities of firms rather than the firm *per se*.
12. For recent reviews of outward foreign investment from developing countries see Goldstein (2007) and Sauvant (2008). In 2002, for the first time, a Latin American MNE (Cemex) entered the global 100 list (UNCTAD, 2002).
13. As is well documented in the *World Investment Report* of UNCTAD (2004).

14. Research over the last decade (as, for example, is summarised in Dunning and Lundan, 2008) suggests that such advantages are becoming a more important part of the O specific advantages of MNEs. In a sense, we are envisaging Hayek's 'dispersed knowledge' theory orchestrated at a global level by asset seeking MNEs.
15. For a detailed examination of the paradigm and how it has been modified and extended since it was first put forward in 1976, see Dunning and Lundan (2008).
16. While our coverage of theories does not intend to be exhaustive, it does, we believe, cover the most influential ideas present in extant theory. A notable critique of all such theories is that of Edith Penrose (1987), who argued that theories that draw upon and develop Hymer-type and Coasean ideas fail to differentiate between the multi-domestic and multinational operations of firms. For Penrose – and indeed Hymer, in his PhD thesis (Hymer, 1976, pp. 22–9) – the latter requires focus on the *differentiae specificae* of nation states, an issue these authors and theories fail to address. Later, Jack Behrman and Robert Grosse do explicitly acknowledge such differences (Behrman and Grosse, 1990).
17. While asserting that firms may also try to capture value, by creating 'impregnable bases', by erecting intra-firm and other, that is, artificial barriers to entry, Penrose foresaw that market 'interstices' (market segment and opportunities not taken up by large firms, would be exploited by small and medium sized firms. Such 'interstices', combined with Schumpeterian competition and suitable regulatory policies, result in a more complex reality than that acknowledged by Hymer (see below).
18. Michael Best's (1990) synthesis of Penrosean and Schumpeterian ideas to explain the 'new competition' of Japanese and other firms, and the emergence of clusters, provides additional support to the idea that an important determinant of market structure may be not only size – including that in global markets – but also *how* one competes.
19. Although, admittedly, the resource-based theories concentrate on the origin and sustenance of the competitive, rather than on the monopolistic, advantages of firms. For the resource-based view and international business, see Pitelis (2000) and Peng (2001). The dynamic capabilities and knowledge-based perspectives emphasise the dynamic, Schumpeterian nature of competition. In the 1990s, such competition was also claimed to be on the increase by some Marxist economists too (see Clifton, 1977).
20. The case of downsizing, especially of large conglomerates in the 1980s, might represent more of a problem. Yet in our judgement, we do not think that Hymer would consider downsizing (and focusing on the knitting so to speak) in the short run, to be inconsistent with continuing expansion from a position of strength in the longer term.
21. Evidence reported in White (2002) on aggregate concentration in the US points to a declining trend in the 1980s and early 1990s and increasing post-1995. The author also acknowledges the severe data limitations.
22. For a review of the role of SMEs in today's globalising economy, see Audretsch (2003). In 2000 SMEs accounted for approximately 95 per cent of enterprises in the OECD, accounting for over 50 per cent of private sector employment; see OECD (2002).
23. As surveyed by Dunning (1998) and Rugman and Verbeke (2008).
24. In particular it raises the (Schumpeterian) possibility of perennial innovation-based competition and creative destruction, leading to only ephemeral monopoly, an incentive (and just reward) for innovation. Add on the Penrosean concepts of 'interstices', small firm growth, and the possibility of anti-trust regulatory policies, and the inevitability of 'global monopoly' becomes questionable.

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