

**Hymer, the nation-state and the determinants of MNCs'  
activities**

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*Competitive paper*

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## Hymer, the nation-state and the determinants of MNCs' activities<sup>1</sup>

**Abstract.** *The paper starts with a brief analysis of Hymer's early work on the determinants of foreign direct investment (FDI) and of his later work dealing with their effects on the nation-states, their governments, labour and the international division of labour. The paper then goes on to argue that the existence of nation-states with their specific regulatory regimes gives companies special advantages particularly with regard to labour and national governments. These can be turned into competitive advantages towards rivals. The advantages of transnationality, deriving from operating in different regulatory regimes, are considered as one of the contributory elements to the explanation of international production and its geographical configuration. This approach is seen as building a bridge between the issues raised in the later works by Hymer (his Marxist phase) in relation to nation-states and labour, and his earlier dissertation work on explanations of FDI. Policy implications are drawn in the last section.*

**Keywords:** Transnational companies; Foreign direct investment; Nation-states.

**JEL:** F21; F23.

### 1. Introduction

Stephen Hymer's work on multinational corporations (MNCs)<sup>2</sup> falls into two phases. The first – what we may call his radical phase – consists of the pioneer work in the field of 'international operations of national firms' contained in his doctoral dissertation (Hymer, 1960 published 1976). The second – in his Marxist phase – consists of a series of articles published mainly in the early seventies<sup>3</sup>.

In his dissertation he tackles the problem of definition and determinants of foreign direct investment (FDI). There is a search for "...the circumstances that cause a firm to control an enterprise in a foreign country." (p. 33) which he identifies with the following (Hymer, 1960: ch. 2). (1) The existence of firms' advantages in particular activities and the wish to exploit them profitably by establishing foreign operations. (2) Gaining control of "enterprises in more than one country in order to remove competition between them" (p. 33). (3) Diversification and risk spreading which he does not, however, consider to be a major determinants of FDI since it does not necessarily involve control.

The nation-state hardly figures in his explanatory framework apart from the fact that the home nation-state provides a supportive environment for the building up of competitive advantages that can then be used in foreign operations. Where the nation-state figures to a considerable extent is in the works of his second phase and particularly in Hymer, (1970; 1971; 1972 and 1979<sup>4</sup>) as well as Hymer and Rowthorn (1970). These works are also characterized by a considerable emphasis on labour, an element which does not figure much in the dissertation.

The present paper shows that developments in the scope and structure of international production in the last thirty years make the nation-states and the frontiers between them increasingly more relevant as a contributor to the explanation of

international production. This approach is then used to extend Hymer's analysis of the nation-state in his phase II to incorporate firms' strategies linked to the existence of nation-states and their frontiers into the determinants of international production.

The paper proceeds with a brief summary of the role of the nation-state in Hymer's works (section two). It will then present an analysis of nation-states and their frontiers as contributory determinant to international production in section three. The links between the latter and Hymer's theory of foreign direct investment are considered in section four. The last section concludes.

## **2. The nation-state and its government in Hymer' work**

As mentioned, the nation-state as well as labour figures prominently in Hymer's later works. The following are among the main issues that emerge from various phase II papers.

(1) The division of labour and the hierarchical structure within the MNC with asymmetry of power between headquarters and subsidiaries are reflected in – and indeed enhance – the international division of labour. They also affect the distribution of power between nation-states and in particular between developed and developing countries (Hymer, 1970, 1971 and 1979). Corresponding to the labour hierarchy within the MNC, we find a hierarchy of nation-states with the developed countries at the top. This tendency is reinforced by the fact that there is interpenetration of FDI within developed countries; the MNCs – all or most originating from developed countries - invest in each other's country as well as in developing countries. Such interpenetration leads to commonality of interests and to collusion (Pitelis, 1991).

(2) The activities and power of MNCs reduce the nation-states' ability to control their own destiny and reduce their independence. There results a general erosion of power within the nation-state.

(3) The governments of nation-states find it more and more difficult to manage their economies when faced with large companies that operate across their frontiers. Two issues are particularly relevant here: the gradual loss of sovereignty and the loss of effectiveness of traditional policy instruments. Both are the outcome of increased transnationalization of activities by the MNCs.

(4) Nonetheless, the overall impact is not equally spread among the various social classes within and across nation-states. The bourgeoisie and the wealthy of the world benefit from their international investment while the workers of the world lose out. The working class is becoming more and more united in production and more and more divided in power (Hymer, 1972).

(5) In spite of the latter point, the MNCs and their owners face problems. The economic system as a whole - and the multinational corporate sector within it - need effective governance. Government has both a legitimisation and stabilization function. One of the reasons why government intervention is needed is to manage the economy and secure its smooth and efficient running. Effective legitimisation and economic management are in the interest of MNCs as a whole as well as of other groups in society. A weaker state and government may store up problems for the MNCs as well as for other actors in the economic system. Yet the MNCs' activities across borders

render much of government policy ineffective. This increases the conflictual nature of capitalist production (Hymer, 1970; Hymer and Rowthorn, 1970).

The question of compatibility between MNCs and nation-states in Hymer's work is considered in the introduction to his collected works by Cohen *et al.* (1979). It is an issue that aroused considerable interest at the time and still does under different circumstances. Hymer and Hymer and Rowthorn clearly saw governments as having a necessary supporting role for MNCs and their international operations.

However, other authors (Kindleberger, 1969; Vernon, 1981) felt that the era of the nation-state was over. "The nation-state is just about through as an economic unit," writes Kindleberger (1969: 207). This is an issue reconsidered in Pitelis (1991) who develops his own dialectical view of the relationship. He sees it as one in which both collusion and rivalry between MNCs and nation-states can coexist "...but the degree of rivalry or collusion... will depend heavily on whether the relationship refers to TNCs own states, or 'host' states, as well as whether the states in question are 'strong' or 'weak', DCs or LDCs." (Pitelis, 1991: 142).

The twin issues of erosion of the power of the nation-state and of the desirability for governance to secure the smooth running of the economy and in the interest - among others - of the transnational corporate sector, have been the object of much debate in the last few years. The current intellectual debate is set in a different economic and social environment compared to the one of the 1960s and early 1970s when Hymer was developing his Marxist views. The debate is now taking place in the context of much expanded activities of TNCs, strong globalization processes, the collapse of the eastern bloc and over twenty years of deregulation and liberalization of the economies of the world in both the developed and developing countries.

Within these debates<sup>5</sup>, some authors maintain that the globalization issue has been hyped-up and that the nation-state is not only still essential to the economies of the world and to the TNCs, but that its governance is still very effective. Indeed, the TNCs are very strongly embedded in their own home countries. Among the authors expounding this so-called (by Held *et al.*, 1999) 'sceptic' position on globalization are Carnoy *et al.* (1993), Hirst and Thompson (1996) and Kozul-Wright and Rowthorn (1998).

In contrast to this position other authors - notably Ohmae (1991; 1995a and b) - maintain that the globalization process is already so advanced as to make the nation-state obsolete and redundant. The states and their governments are indeed seen as an obstacle to the efficient running of the economy in the global era and a call for their demise in favour of region-states is issued. The region-states are smaller geographical units more homogeneous than the whole of the nation-state of which they are part. It is the wealthier region-states - such as Northern Italy or Baden-Wurtemberg or Hong Kong and Southern China - that are encouraged to separate from their nation-states.

Held *et al.* (1999) consider globalization as a process of transformations which needs specific and stronger international regulation. Ietto-Gillies (2001: ch. 9) sees the transnational companies and the development and spread of the information and communication technologies (ICTs) as the dominant causes in the globalization process. In this context the role of governments in the regulation of the globalization process - including regulation of TNCs' activities - is seen as both feasible and necessary.

### **3. National borders as a contributory element to the explanation of international production**

Hymer's dissertation sees operations into foreign countries as – on the whole – costly in terms of adaptation to an environment which is unknown and often hostile culturally, socially and economically. However, the problems are more than compensated by two elements: the higher profitability that derives from controlling foreign operations and the specific ownership advantages that many companies from developed countries have and which allow them to develop their international operations. As mentioned, these advantages are forged in the home country's favourable environment.

The concept of ownership advantages has been further developed by Dunning (1977, 1980 and 2000) who specifically considers among them also those advantages that derive from the multinationality of operations. This means that companies that are already multinationals find it easier to branch out with further operations in the same foreign locations or indeed into new ones. This type of advantages is not considered in Hymer's dissertation<sup>6</sup>. There is, however, a strong hint of it in Hymer (1970) where the MNC is seen a "...much more powerful organizational form than the national corporation..." (p. 44).

Ietto-Gillies (2001: ch. 6) specifically stresses the need to concentrate on advantages of transnationality. It also stresses the strategic side of TNCs' activities and particularly strategies towards labour. In general, the strategies could be aimed at rivals, labour or governments though all three types are related. In fact, a successful strategy towards labour or governments can lead to higher profits and these can be used to increase the company's market share and generally to improve its competitive position. While a good amount of literature<sup>7</sup> has concentrated on strategies towards rivals (Vernon, 1974; Knickerbocker, 1973; Cowling and Sugden, 1987; Graham, 1978 and 2000; Buckley and Casson, 1998), the strategies towards labour have been more neglected<sup>8</sup>.

The advantages of multinationality can be analysed better if we look at the nation-state as the locus of regulatory regimes (Ietto-Gillies, 2001: ch. 6), that is of a set of laws, regulations and customs governing production and exchange, rather than just in terms of geographical or cultural distance between nation-states. As regards labour, the regulatory regimes refer to the set of laws, regulations and practices governing labour and its trade unions. They are all applicable within the nation-state but not across frontiers. This means that labour has been, so far, and still is, unable to organise itself across nation-states. Some signs of change are on the horizon (Radice, 2000).

The existence of different nation-states with their specific regulatory regimes has usually been seen as posing obstacles to the international movements of resources (particularly labour) or products. For example Krugman (1991) sees countries as "...defined by their restrictions" (72). He writes specifically: "Nations matter – they exist in a modelling sense – because they have governments whose policies affect the movements of goods and factors. In particular, national boundaries often act as barriers to trade and factor mobility." (pp. 71-2).

However, different regulatory regimes in different countries can also generate opportunities and create favourable conditions for profitable international production. This is an aspect that has been rather overlooked in the literature and to it we now turn. A company that can operate across different regulatory regimes acquires advantages in respect of the following (Ietto-Gillies: ch. 6):

- It is confronted with a more fragmented labour force compared to a situation in which the same amount of output is all produced within the same nation-state. In the latter case the whole of the workforce employed by the same company could more easily organise resistance. To this type of locational – by nation-state – fragmentation should be added the ownership and organisational fragmentation deriving from the increased tendency towards the externalisation of some activities particularly the non-core ones (Ietto-Gillies, 2001: ch. 3). This second type of fragmentation is not linked to the existence of different nation-states and their regulatory regimes. In fact, it is independent of location and/or of national frontiers. Externalization, via for example sub-contracting, can take place within the nation-state or between firms operating in different countries.
- The company will have a stronger bargaining power towards governments keen to attract inward investment. The last two decades have seen an upward spiral in ‘investment incentives’ by national and local governments bidding for inward FDI (Oman, 2000; Phelps and Raines, 2002). The threat of location or relocation in alternative foreign sites and the playing off of one government against the other (Pitelis, 1991: 143) are much more credible when the company already operates in many foreign countries.
- Different tax and currency regimes across nation-states generate scope for the manipulation of transfer prices.
- The location of production in different countries allows the spreading of risks.

These are all advantages of operating in many nation-states characterized by different regulatory regimes. Moreover, the relative costs of direct production abroad have diminished as companies have learned more from their own past experience as well as from the experience of other TNCs<sup>9</sup>. The learning refers to both external conditions (markets and/or costs) and internal elements such as their own managerial organization or the organization of the supply chain. Thus the worries about the costs and difficulties of foreign operations and the cautious approach to them of early writings (including Hymer, 1960 and Vernon, 1966) seems less relevant in the world of the mature transnational corporate sector of late twentieth and early twenty first centuries.

Some relevant issues emerge from this. The transnationality of operations can clearly give advantages to TNCs compared to unination companies (UNCs). But it can be argued that nowadays most TNCs confront other transnationals as their main competitors rather than UNCs. It is therefore important that the advantages of transnationality are used strategically to acquire competitive advantages not only towards UNCs but also towards rival TNCs. For example the advantages acquired towards labour or governments may result in a strong position for the relevant TNC and this can then be used against rivals.

Moreover, the strategic elements are self-reinforcing. The transnationality of their operations allows companies to act strategically towards labour, governments and rivals. On the other hand, their desire to pursue strategic objectives towards these actors may affect their decisions with regard to the geographical location of production and therefore affect their overall geographical (by nation-states) configuration.

This approach essentially puts the existence of nation-states with their different regulatory regimes in the explanatory framework for the international operations of TNCs. It is not claimed that the strategies towards labour or governments - made possible by different regulatory regimes - are the only reasons for foreign direct investment and for the company's geographical configuration. However, it is claimed that they play a strong part in such decisions. Investing abroad gives companies advantages in terms of markets, and/or access to resources. In addition, it also gives them the opportunity to confront a fragmented and thus weaker labour force, to be in a strong position for bargaining with governments for financial incentives, to take advantages of different tax and currency regimes and to spread risks.

#### **4. Fitting the nation-states in Hymer's explanatory system**

The approach sketched in section three sees the existence of nation-states with their different regulatory regimes and their frontiers as generating opportunities rather than (or more than) problems for the TNCs

Hymer saw extra costs and problems deriving from activities in foreign countries. Problems that could, however, be overcome by the extra competitive advantages of large companies. In his explanatory approach competitive advantages are one of the roots of FDI. However, multinationality *per se* is not a competitive advantage in Hymer's theory of determinants of FDI. At the time he was writing – and particularly at the time of his dissertation – the degree of multinationality, however it is measured, was not as high as it is today. Thus the lack of inclusion of multinationality as one of the advantages of international operations seems, in retrospect, quite appropriate in 1960<sup>10</sup>.

Since then, the number of companies that are transnationals has increased considerably. Their operations abroad have extended in terms of intensity – in relations to their overall activity or the activities of countries in which they operate<sup>11</sup> – in terms of modes of operations and in terms of geographical extensity. On the latter issue suffices to cite that the largest world 664 TNCs operated on average in over 23 countries in 1997 (Ietto-Gillies, 2001: table 4.1, p. 72). Some evidence of change through time in the geographical extensity of operations is given by the fact that the largest UK TNCs in manufacturing and mining operated, on average, in 15 and 40 countries in 1963 and 1997 respectively (Ietto-Gillies, 2001: table 5.1, p. 92).

This large extension of their direct network of activities allows TNCs to confront an increasingly fragmented labour force. Moreover, to this fragmentation in terms of the nation-states in which they operate – and their regulatory regimes - should be added the strong organizational fragmentation deriving from the considerable increase in the externalisation of activities that we saw in the last twenty five years (Ietto-Gillies, 2001: ch. 3). Both types of fragmentation – locational and organizational - weaken the power of labour *vis-à-vis* capital because they make labour organization and resistance more difficult.

The nation-state as well as labour in the context of MNCs' activities figure prominently in Hymer's later writings as we saw in section two. Essentially, as well as an analysis of the effects, there is, in the writings of Hymer's Marxist phase, a defence of the nation-state and its governance in the era of MNCs.

What I am here proposing is that we take a step further and consider those elements in the existence of nation-states and their regulatory regimes, that actively help international operations. The TNCs benefit from the existence of the nation-state

and its government not only because of the latter's exercise of legitimisation and stabilization functions, but also because the existence of different regulatory regimes may lead to more profitable opportunities. This is an advantage specific to the TNCs and their international operations rather than to the whole corporate sectors. It is an advantage that can be used strategically to acquire competitive advantages towards other TNCs as well as UNC's.

Considering the nation-states and their regulatory regimes, particularly in relation to labour, makes sense in the context of Hymer's interests in labour issues, of his analysis of the relationship between MNCs and labour as well as MNCs and nation-states. The extension of the issue of the relationship between MNCs and nation-states from the domain of effects to the domain of causes is therefore a natural development of Hymer's later work. Moreover, in one of his later Marxist works (Hymer, 1970), there is a strong hint that he was thinking of advantages of multinationality for example when he wrote: "...large corporations are consciously moving towards an international perspective..." (p. 44).

In terms of explanation I have here emphasized Hymer's stress on competitive advantages. However, Hymer second explanation is in terms of control of operations in foreign countries. The issue of control was very prominent in Hymer's dissertation. It is used as the main demarcation criteria between portfolio and direct investment; it is used to criticise the neo-classical approach to foreign investment and it is seen as one of the main causes of international operations. In the latter perspective, control gives the company advantages *vis-à-vis* other companies and it also assists in the removal/smoothing out of conflicts.

A natural extension of this idea of control as removal of conflicts is in the area of control over labour which is considered by Hymer in his 1970 and 1972<sup>12</sup>. Hymer stresses the role of hierarchical structures and spatial – particularly international – division of labour in implementing the division between mental and manual labour. He writes: "To maintain the separation between work and control, capital has erected elaborate corporate superstructures to unite labor in production, but divide it in power." (p. 86) and later "The international division of labor keeps the head separate from the hand, and each hand separate from every other. It thus weakens the potential resistance to capital control" (pp. 87-8).<sup>13</sup>

These elements are still valid. Moreover, to them I would like to add the following. The fact that they employ labour in different nation-states under different regulatory regimes, allows TNCs to confront a more fragmented labour force. This compared to a situation in which they might be producing the same quantity all in one single country and source their foreign markets through exports. The latter case would make it easier for labour to organize and resist. The fragmentation of labour over many nation-states allows the TNCs to exercise wider control over labour in strategies of divide and rule (Cowling and Sugden, 1987; Sugden, 1991) and to remove conflicts with labour. This helps to explain why most FDI not only originates from developed countries but it is also directed towards developed countries. Therefore, it is, largely, directed towards countries with a similar supply of skills<sup>14</sup>.

## **5. Conclusions and policy implications**

The paper starts with a brief analysis of Hymer's earlier work – his doctoral dissertation – centred on the search for causes of international operations - during what I call his radical phase - and of his later work in his more Marxist phase.



The paper develops Hymer's analysis of determinants of FDI in the following directions:

- Inclusion of advantages of transnationality among his firms' advantages as a cause of international operations. This is a development linked to change in the economic system and in particular to the greater degree of internationalisation due to TNCs' activities.
- Among the specific advantages of transnationality, inclusion of advantages of operating in different nation-states characterized by different regulatory regimes. In particular advantages deriving from dealing with a more fragmented labour force and from playing governments off against each other. This element is a development of various issues dealt with in Hymer's phase II extended to his early analysis of determinants of international production.

The paper therefore attempts to build a bridge between the ideas of Hymer's Marxist phase and his earlier work. It does so by linking some of his later views on the effects of MNCs on nation-states and on labour to the explanatory framework for international operations. Two elements are key to this linkage: (1) an emphasis on the advantages of transnationality; and (2) the stress on advantages of operating across different nation-states and regulatory regimes. Neither of these elements is specifically dealt with in Hymer's dissertation. However, their current emphasis is justified not only by the development in the activities of TNCs but also by the strong interest shown by Hymer (phase II) in similar issues related to nation-states and labour.

On the side of causes on international operations, it is claimed that considering the advantages of transnationality is a natural extension of the advantages part of his theory of FDI. The emphasis of this paper on labour fragmentation and control by TNCs is also in accordance with the later work by Hymer on the division of labour as well as with the stress on various aspects of control present in his dissertation.

There are policy implications from the approach here proposed (Letto-Gillies, 2001: ch. 10) that indeed fit in well with the general concern for policies in Hymer's phase II. In particular:

1. The TNCs' advantages of transnationality *vis-a-vis* other actors, are due to their ability to plan, organize and control across frontiers in a situation in which other actors – labour, national and local governments, UNCs, consumers – are unable to do so or not to the same extent as the TNCs. An obvious policy corollary of the approach is that other actors – particularly labour – should be encouraged and enabled to develop countervailing transnational power of their own.
2. For national and local governments, bidding wars to attract FDI are a zero-sum game in terms of total amount of FDI world wide. They are a negative-sum gain in terms of social benefits from the use of their financial resources as these are transferred from the public sphere to the TNCs. For society as a whole, rules-based competition for FDI is a better strategy for the attraction of inward investment than incentive-based competition (Oman, 2000).
3. Similarly, political fragmentation of nation-states into smaller region-states should be resisted because it may give the TNCs more power to play one region against the other. The benefits of democratic processes at the local and

regional levels<sup>15</sup> should be secured without increasing the scope for increasing the power of TNCs.

4. If the economic/political union of several nation-states - as in the EU or NAFTA - leads to more homogeneous sets of regulatory regimes it is likely to cut down bidding wars in the long run. It is therefore likely to strengthen governments' power to resist the upward spiral on incentives. The setting of similar labour standards across the Union will strengthen the bargaining power of labour *vis-a-vis* the TNCs.

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<sup>1</sup> I am grateful to Giovanni Balcet, Mo Yamin and an anonymous referee for very useful comments on earlier drafts of this paper.

<sup>2</sup> Throughout the paper I will use the expression multinational corporations (MNCs) when referring to works that use it (such as Hymer's). I will otherwise use the expression transnational corporations (TNCs). A similar use will be made of the terms multinationality and transnationality as far as possible.

<sup>3</sup> Most of these are reprinted in Cohen *et al.* (1979). A few are published for the first time in the same collection.

<sup>4</sup> Hymer (1979) was published for the first time in the posthumous collected papers in Cohen *et al.* (1979).

<sup>5</sup> Summaries of these debates as well as analyses are in: Held *et al.* (1999); Ietto-Gillies (2001: ch. 9) and Radice (2000).

<sup>6</sup> Yamin (2000) contains a critical evaluation of Hymer's theory of firms' advantages.

<sup>7</sup> For a review of the literature on theories of international production cf. Ietto-Gillies (1992) and Cantwell (2000).

<sup>8</sup> With the exception of Sugden (1991); Peoples and Sugden (2000); Ruigrok and van Tulder (1995) and Ietto-Gillies (2001). The neglect of labour in most theories of globalization is one of the criticisms in Radice (2000).

<sup>9</sup> On this point cf. also Yamin (2000: 66) and Ietto-Gillies (2001: ch. 6).

<sup>10</sup> It is interesting that a decade later he seems to be giving more weight to such advantages. See quote later in this section (Hymer, 1970: 44).

<sup>11</sup> Cf. in particular the ratios of FDI as a percentage of GDP by country and region in the annexes to the various UNCTAD, *World Investment Reports* as well as the results for the "Transnationality Index" developed for the largest TNCs in UNCTAD (1995) and published annually since then.

<sup>12</sup> Cf. also Cowling and Sugden (1987 and 1998). Antecedents are in Marglin (1974) and Zetlin (1974).

<sup>13</sup> The pages of these quotations refer to the reprinted version of the paper in Cohen, *et al.* (eds), (1979: ch. 3, pp. 75-93).

<sup>14</sup> In 2000 the percentage of stock of world FDI originating in developed countries was 88 while the share of inward stock into the same group of countries was 67 percent (UNCTAD, 2001: Annex B, tables B4 and B3).

<sup>15</sup> Cf. Cowling and Sugden (1994).