Introduction

This volume and volume II of the set consist of some of my more substantial and influential contributions to the study of international business (IB), foreign direct investment (FDI) and global capitalism. The contributions stretch over nearly three decades, although the great majority were written in the 1980s and 1990s.

The first volume deals almost entirely with the evolution of my thinking on the determinants of international production, that is, production financed by FDI and undertaken by multinational enterprises (MNEs). For the most part, the chapters are presented in chronological order.

Chapter 1, after reviewing the state of the art of the subject in 1973, distinguishes between the firm or ownership (O) specific determinants of international production, and the country or location (L) determinants. However, although it acknowledged (pp. 23–36) the need to better understand the modality by which firms exploited (or augmented) their O advantages outside their home countries, it did not identify or evaluate these. This I attempted to do in a paper presented at a Nobel Symposium in Stockholm in 1976. Chapter 2 reproduces this paper, which introduces the concept of the eclectic paradigm (then called theory) of international production; and incorporates an internalization (I) component into the OLI triad of the determinants of MNE activity.

Subsequent to this contribution, in the later 1970s and early 1980s, I attempted to empirically test and refine the eclectic paradigm, and to widen its analytical scope. Chapter 3 presents some evidence on the importance of some of the particular O and I characteristics of firms (drawn largely from industrial organization theory) and the particular L characteristics of countries (drawn largely from location theory), with respect to the industrial distribution of US FDI in several Latin American countries.

In Chapter 4, we examine how the principles of the eclectic paradigm may help us understand and explain the outward and inward direct investment path of countries as they proceed through various stages of development. This application of the paradigm has received extensive attention in the literature;¹ and the paradigm itself has been extended and modified over the last two decades. The current version set out in Chapter 5 was co-authored with Rajneesh Narula in 1996.

Chapters 6 and 7 examine some of the early comments and criticisms directed to the eclectic paradigm in the 1980s, and at the same time attempt to introduce more dynamic and strategic related variables into its main tenets. The 1988

paper (Chapter 7), first published in *The Journal of International Business Studies*, also suggested that the paradigm could be used as a framework for examining the costs and benefits of FDI; and of the act of foreign dis-investment as well as that of investment. Both themes were further taken up in my 1993 volume, *Multinational Enterprises and the Global Economy* (Dunning, 1993).

Chapter 8 reproduces a chapter in a book edited by Peter Hertner and Geoffrey Jones (1986), and jointly authored by John Cantwell and Tony Corley, on the historical antecedents of the eclectic paradigm, or, to put it rather differently, the explanations of how the extra-territorial expansion of firms, from the time of the mercantilistic economists of the eighteenth century onwards, could be reinterpreted in the language of the eclectic paradigm. What, indeed, were the OLI advantages determining trade and foreign-owned production identified by the mainstream economists of their day, such as Adam Smith, J.S. Mill, Alfred Marshall and Joseph Schumpeter? To what extent did they help to explain the growth and maturation of MNE activity?

Towards the end of the 1980s, I (as an economist) was becoming increasingly aware of the necessity to take an interdisciplinary approach to understanding both the determinants and consequences of IB activity. Chapter 9 identifies these, first by examining the variables exogenous to firms, and especially the political and cultural and legal variables; and second those endogenous to firms, especially organizational, financial and marketing variables. Over the course of the last two decades, I believe that mainstream IB scholars have come increasingly to value the contribution of those of other disciplines, notably law, political science, business history and economic geography, to furthering their understanding of the causes and implications of cross-border production and trade.

The 1990s saw the emergence of our contemporary knowledge-based global economy. Later chapters in this volume try to reflect how the specific characteristics of this event and its implications for world trade and investment are affecting our theorizing on the determinants of MNE activity. Chapter 10 introduces the concept of alliance capital into our thinking, and argues that inter-firm coalitions need to be embraced within the framework of the eclectic paradigm, in so far as they affect both the content and significance of the OLI variables, and the interaction between them.

Chapter 11 reviews the implications of the growth of international production for received trade theory; and argues that any paradigm seeking to explain the cross-border transaction of goods and services must embrace both a theory of industrial organization and a theory of the location of economic activity. The matrix set out on p. 315 portrays the evolution of the structure and form of trade in assets and products from inter-industry arm's-length transactions between independent parties to intra-industry intra-firm transactions.

Chapter 12 reproduces a paper jointly written with John Dilyard in 1999. In it an attempt is made to see how far the eclectic paradigm may be used to explain

the rapid growth in foreign portfolio investment (FPI) over the past two decades; and in doing so, it introduces the OLE (E = externalization) paradigm. Chapter 13 looks more specifically at the impact of globalization on our theorizing on both the causes and effects of MNEs' activity. This chapter concludes by examining the impact of globalization on the geographical distribution of FDI.

Chapter 14 tries to summarize the state of the art of the eclectic paradigm at the end of the twentieth century, and relates its main contents to other paradigms and theories of IB activity which have been put forward over the past 35 years. A concluding statement of this chapter is perhaps worth reproducing here.

We believe that recent economic events, and the emergence of new explanations of MNE activity, have added to, rather than subtracted from, the robustness of the paradigm. While accepting that, in spite of its eclecticism, there may be some kinds of foreign owned value-added activities which do not fit comfortably into its construction, we do believe that it continues to meet most of the criteria of a good paradigm; and that it is not yet approaching its own 'creative destruction'.²

Chapters 15 and 16 consider two very recent developments in the global economy, and on how the tenets of the eclectic paradigm may require modifications to incorporate these. The first (Chapter 15), written jointly with Cliff Wymbs, is concerned with the (predominantly) technical impact of e-commerce on the content and significance of the OLI variables comprising the paradigm and the interface between them. The second (Chapter 16) looks at the growing importance of the willingness and ability of individuals and corporations to establish and sustain productive intra- and inter-firm relationships as a factor affecting the extent and structure of IB activities. This chapter introduces the concept of relational assets, and argues that the growing significance of these assets is affecting the composition, significance and configuration of the OLI triad of variables.

NOTES

1. See, for example, various contributions in Dunning and Narula (1996), Castro (2000) and Dunning et al. (2001).
2. These words were written before the publication of a special issue of the *International Journal of the Economics of Business* (July 2001), edited by John Cantwell and Rajneesh Narula, which was devoted to the eclectic paradigm. Several articles in this issue suggest further emendations or extensions of the paradigm.

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