



The eclectic paradigm as an envelope for economic and business theories of MNE activity

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Abstract

This paper updates some of the author's thinking on the eclectic paradigm of international production, and relates it to a number of mainstream, but context-specific economic and business theories. It suggests that by dynamizing the paradigm, and widening it to embrace asset-augmenting foreign direct investment and MNE, activity it may still claim to be the dominant paradigm explaining the extent and pattern of the foreign value added activities of firms in a globalizing, knowledge intensive and alliance based market economy.

Section snippets

Introduction: the contents of the eclectic paradigm

For more than two decades, the eclectic (or OLI¹) paradigm has remained the dominant analytical framework for accommodating a variety of operationally testable economic theories of the determinants of foreign direct investment (fdi) and the foreign activities of multinational enterprises (MNEs)....

The ownership sub-paradigm

In explaining the growth of international production, several strands of economic and business theory assert that this is dependent on the investing firms possessing some kind of unique and sustainable competitive advantage (or set of advantages), relative to that (or those) possessed by their foreign competitors. Indeed, some would argue that in traditional neoclassical theory, in which the firm is a 'black box', no fdi is possible – as all firms have equal access to the same resources and...

The locational sub-paradigm of countries (and regions)

For the most part, until recently, neither the economics nor the business literature gave much attention as to how the emergence and growth of the cross-border activities of firms might be explained by the kind of location-related theories which were initially designed to explain the siting of production *within* a nation state; nor, indeed, of how the spatial dimension of fdi might affect the competitiveness of the investing entities. In the last decade or so, however, there has been a...

The internalization sub-paradigm

Given that a firm has a set of competitive or O specific advantages, and the immobile assets of a foreign country are such as to warrant locating value adding or asset augmenting activities there, what determines whether such activities are undertaken by the firms possessing the advantages, or by indigenous producers buying the advantage, or the right to its use, in the open market, or acquiring them by some other means?²⁹ Orthodox...

Conclusions: the eclectic paradigm as an envelope for complementary theories of MNE activity

In the three previous sections we have suggested that, for the most part, the many and varied explanations of the extent and structure of fdi and MNE activity are complementary, rather than substitutable for, each other, and are strongly context specific. We have further observed that, as the international production by MNEs has grown and taken on new patterns, as the world economic scenario has changed, and as scholars have better understood the *raison d'être* for fdi, so new explanations of...

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