

SCHOOL OF ECONOMICS  
POSTGRADUATE MODULE ECM120  
THE ECONOMICS OF  
THE MULTINATIONAL ENTERPRISE

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- Lecture 3b

# Strategic Motivations

- Resource Seeking
- Market- Seeking
- Efficiency-Seeking
- Knowledge- Seeking

# Eclectic Framework/ Paradigm Ownership Advantages

- Ownership advantages (Oas): Represent the unique sources of firm-specific advantages that provide the firms with the ability to be internationally competitive.

Links with Hymer?

# Location Advantages (Las)

- These can explain why benefits can be derived from the use of Oas in specific locations outside of the home country of the MNE.

# Internalisation advantages (Ias)

- These factors explain why Oas that are used in foreign locations are used (internally) by the firm itself (thus becoming an MNE) rather than being licensed (or otherwise marketed) to a local enterprise.

# Evaluation Framework

- Theory shows that MNEs are embedded in various market imperfections
- Debate about their value and implications
- Four types of issues

# Efficiency Issues

- At a purely economic level if there exist complementarities between MNEs and the national economies they operate in that can lead to the generation of increases in world welfare.
- The fact that there is a huge number of MNEs or profitable subsidiaries does not mean that these operations are efficient.
- Profitability can stem from market imperfections.

# Types of market imperfection

- Strong market power in the host country due to protection against imports and/or guaranteed market position (no local competitors and no MNEs).
- Imperfections in markets for intermediate products (Oas) that limit the possibilities of selling the sources of competitive advantage to local firms ....and thus earl monopoly rents on these advantages (technology)

## Positive scenario

- MNEs use their Oas in combining them with Las in certain host economies. In turn these Las increase in value when used with Oas.
- Positive aspect of globalization...world is better off!

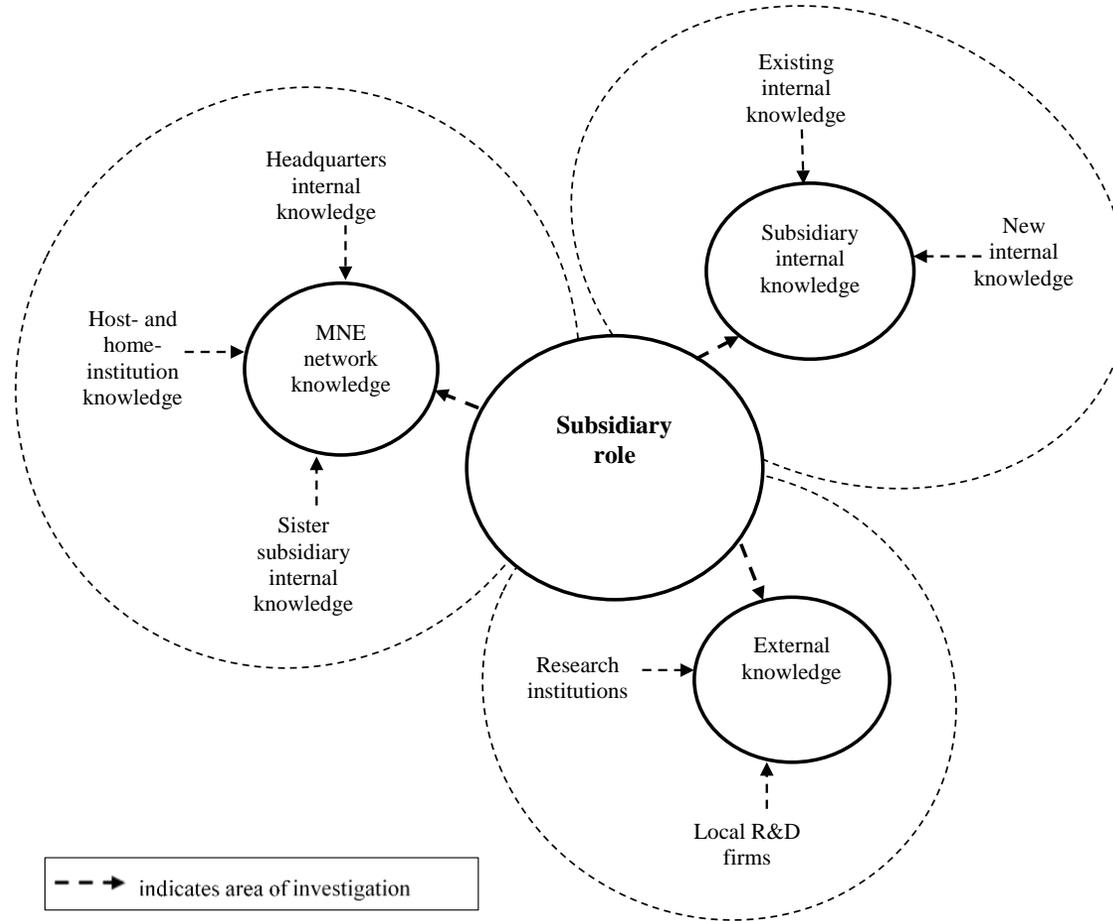
# Distribution Issues

- An efficient MNE operation creates benefits for the MNE and the host country. But are the benefits “fairly” distributed between the partners?
- Major criticism again globalisation.
- Difficult to define fair
- MNEs operate in market imperfections (Oas) whilst for Las there are markets i.e. labour, energy, raw materials)
- Policies of host –country government also cannot be priced
- There is a bargaining process between MNEs and host-country governments and usually MNEs win because:
  - a. They claim a monopoly rent from the argued quality and exclusivity of the Oas they bring in the project
  - b. Their past experience provides them with greater skill in bargaining process.
  - c. They benefit from information asymmetry. They know more of the host country needs than the host country knows of their situation.

# Sovereignty and Growth and Development (G&D)

- MNEs can undermine the ability of individual nation-states to implement their own unique policies in particular areas (e.g. tax)
- This reflects the MNEs flexibility which they achieve through global networks and the bargaining power they have gained.
- G&D for most national economies means changes in their Las.
- How much MNEs determine the change of Las? Do they weaken them or reinforce them/ or use new Las effectively?
- How different motivations relate to G&D and Las?

Figure 1. Literature Overview: Subsidiary Roles and Knowledge Sources



## APPENDIX A: Definitions of variables

Figure A1: Roles of Subsidiaries (as extracted from question 11 of questionnaire survey)

Market- Seeking 1: MS1 - to produce the MNE group's established product range for the Chinese market.

Market- Seeking 2:MS2 - to produce the MNE group's established product range for the Chinese market with adaptation of products or production processes to suit local demand and conditions.

Efficiency- Seeking 1: ES1 - to produce a specialised part of the MNE group's product range to supply Chinese and nearby Asian countries' markets.

Efficiency- Seeking 2: ES2 - to produce a specialised part of the MNE group's product range, or component parts for assembly, as a part of the MNE group's worldwide supply network.

Knowledge- Seeking 1: KS1 -to develop and produce products that are new for the Chinese market.

Knowledge- Seeking 2: KS2 -to develop and produce new products that are expected to supply the global market.

Note: Respondents were asked to evaluate each role as (4) our only role, (3) a major role, (2) a secondary role, (1) not a part of our role.

**Source: Zhang and Pearce (2012), table 3.1(a), p. 48.**