

The Politics of Transnational Production Systems

A Political Economy Perspective

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The issue

One of the most important phenomena in the contemporary world and the most dynamic factor in economic globalization is the growth and spread of *transnational production systems or networks (TPS)*. These are geographically distributed but integrated and more or less coordinated activities that include production, marketing and distribution functions organized across national boundaries. The TPS are usually institutionalised in long-term arrangements coordinated through active socialization or governed under some degree of centralized overall control (or both), but degree and type of formalization and control may vary considerably.¹

The phenomenon is being addressed by a number of management economists (see below), macro sociologists (Castells, 2000) and human geographers (Dicken, 2004). Political scientists, notably those representing political economy, have paid much less attention. Most IR scholars appear still to be informed by the neo-classical economists' trade model, despite the fact that this model is becoming increasingly obsolete and even mainstream economists have begun to abandon or at least modify it. The Gramscian IR heritage has been taken care of by Cox (1987). Earlier 'mainstream' contributions by political scientists such as Cyert and March (1962), Bauer et al (1972), and Vogel (1987) have, however, remained fairly marginal. Susan Strange's conceptualization of the international production structure as vital both for the distribution of power and the creation of wealth contained many of the insights that should remain key elements in the analysis of TPS (Strange, 1988; see also Strange and Tooze, 1981; Lawton, Rosenau and Verdun, 2000).

¹ The term 'integrated international production' was employed by UNCTAD in its 1993 World Investment Report (UNCTAD 1993). At present the term 'global production network' is widely used to account for the phenomenon; so is 'global value chain'. Neither is applied in the present context and for two reasons which are set out in more detail in the text: the organising activities that 'network' represents are often having a distinctly regional rather than a global character, and networking is only a part of these activities, the concept of 'system' constituting a more accurate representation of their internal power relations, purpose and outcome.

The purpose of this paper is to contribute some ideas on how to correct for this deficiency. Still at an exploratory stage it suggests how political economy with a political science core could and should analyse political processes and policy outcomes that result from the spread of TPS. Such analysis will offer important insight into the contemporary phase of economic globalization. After all politics is about “who gets what, when and how” (Laswell, 1936). David Yoffie follows up by arguing that “... who gets what, when, and how is a function not only of the market but also of bargaining, implementation, coercion, and the use of symbols” (Yoffie 1983:18). The ‘what’ that is relevant here is not only welfare, but the means to obtain it as well: production, distribution, marketing or other matters of an economic kind, but in our times also leisure, ecologically sustainable growth and a clean environment. Whereas contributions in International Political Economy normally emphasize these ‘whats’, they mostly follow mainstream International Relations in the sense that they frame reality as one represented by governments bargaining over trade tariffs, public subsidies and market access issues in the WTO. And to the extent non-governmental agents are considered, NGOs are privileged research objects. Business agents are to an astonishing degree either not treated, or if they are, treated as one homogeneous category. But business is clearly not that. There are some notable exceptions in the literature to which I return, but there is a great need to develop a more realistic, substantive understanding of the workings of the global political economy. In that understanding business actors should come out as nearly as varied as do state and civil society actors.

I propose to go about the empirical challenges by *working the structure from the bottom up*. It means selecting identifiable TPS as unit of analysis for case studies. This should make it possible to identify and analyse power relations and structures in the wider global and regional contexts in which the TPS operate. What I propose is *not* a materialist nor is it a structuralist approach. What it does is to start with locating the structure and organization of TPS and then go on to analyse agency, within and from the outside of it, that attempts, or may attempt, to influence the way TPS operate to allocate production tasks, distribute value and relate to society. In yet further analytical steps the approach should make it possible to focus any single actor or actor category and investigate whether or how it addresses the TPS cognitively and in concrete action. The approach is moderately eclectic and represents at the same time a contribution to meta-theoretical debates in IPE.

The dynamics of current globalisation are fairly well known. For some time a growing part of the traditional industry base of the OECD economies has been moved abroad through ‘offshoring’ and ‘outsourcing’ by foreign direct investments and other mechanisms of transnational expansion. Even services have been outsourced much faster than before, particularly in the US. Changes are felt at the level of the individual who loses her job. While much of the loss

of jobs are due to efficiency gains after introduction of new technologies (Kierkegaard, 2007), many or most people interpret the process and its drivers differently. In the course of a few years Westerners' view of economic globalization has turned from euphoria to fence-riding or outright scepticism. Stalled negotiations in the Doha Round are simply one indication; one has to move well beyond trade politics proper to get to the core of what is happening. Public perceptions appear to have realised that. At the end of the 1990s a majority was favourable to economic globalization in both North America and Europe. But in a poll taken across the world in 2006 both Americans and West Europeans were divided with respect to whether they thought globalization is good or bad for their country. With regard to the effects of foreign direct investment, 44 percent of Americans say it is "dangerous" against 36 percent who say it is "necessary and positive"; the corresponding percentages for Europeans being roughly the reverse. In comparison people surveyed in Africa and Asia are much more positive to globalization including foreign investments. At the same time majorities in all the regions believe that globalization benefits the rich more than the poor (Gallup International 2006, www.worldpublicopinion.org). There appears, in other words, to be an increasing awareness that distributional conflicts are on the rise at all levels and between them.²

While the public appears to be reconstructing the world under economic globalisation, the issue I raise is: Do political systems adjust? Are political institutions and processes anywhere near an appropriate representation of the various interests that are affected by these conflicts? Is economic globalization delivering on its promise to create more competition, or are some few actors becoming dominant in the process of liberalising and deregulating markets? These are some of the issues that need to be better addressed in IPE than they are at present.

The TPS phenomenon

The combined effects of foreign direct investment (FDI), outsourcing, offshoring and mergers may be seen behind the reported shift of public opinion on economic globalisation in the West. The shift appears at first glance to be a good representation of reality. The activity that traditionally has been the focus of politics, trans-boundary trade, has for maybe twenty years been dwarfed by sales from foreign production - that is production in affiliates abroad which are established through FDI: the estimated value of these affiliate sales is more than twice the value of trans-boundary flows of goods. Such an empirical fact is missed in comparisons of trade statistics and in current account comparisons. As an example

² This turn in public perceptions of globalization is echoed in reports emerging from the business community in Western countries; see e.g. The Financial Services Forum (2007) *Succeeding in the Global Economy. A New Policy Agenda for the American Worker*. New York, June.

- foreign sales of US-owned affiliates in the UK, Germany, and Brazil were over four times greater than US exports to those same countries around 1990, and sales of Swiss and Dutch firms' affiliates in the US were around ten times as large as the direct exports to the US from these two countries at that time.

In addition

- transnational corporations (TNCs) also account for roughly one third of trans-boundary trade; this is that part of international trade which is intra-firm, takes place between entities of one and the same corporation; it is also referred to as 'vertical' trade. Moreover
- another sizeable part of trans-boundary trade flows, estimated at roughly 1/3, is under the influence, in many cases indirect control of TNCs as they outsource production, license their technology or engage independent firms in other ways under long-term contracts; this trade is with so-called 'related parties'
- the TNCs account for more than half of global R&D and innovation activities and their share is increasing; and
- transfers of technology are not only increasingly subjected to international property rights and thus conditioned by patenting and licensing, but are also increasingly subject to intra-corporate transfer and to the networking activities of the 'spider' corporations (Brainard, 1997; UNCTAD, 2001; Milberg, 2004; Rugman, 2005).

A result of this shift from exports to foreign production is that 3/5 of all growth in international (trans-boundary) trade in goods over the last years consists of growth in intermediate products. Production is being relocated to a foreign location and parts of it become exported to third countries, some imported back to the home country of the investing firm (Feenstra, 1998). Economic globalization is a strong transformative force, and the evolution of transnational production systems is its most important contemporary process (Hveem, 2005b). Richard Baldwin refers to the process - variously called 'fragmentation', 'vertical specialisation' or 'slicing up the value chain' - as the 'second great unbundling'. Rapidly falling transportation costs caused the first great unbundling from the late 19th hundred on and ended the need to produce close to consumers. Under the second rapidly falling communication and coordination costs have ended the need to perform most manufacturing stages near each other (Baldwin, 2006). He argues that the changes taking place requires a new paradigm. Be that as it may the process has profound political implications. Outsourcing, networking, building strategic alliances, and other forms of organizational activity are often being managed without or in addition to FDI.³ They call for research on both politics and policy that goes much

³ Charles Oman was one of the first to identify and emphasize some of these mechanisms as new forms of international investment (Oman 1984).

beyond the traditional emphasis on either international trade, foreign direct investments, sector studies, or national systems of innovation.

Important contributions that address such separate issues have already been made by economists (Markusen, 1995; Brainard, 1997; Feenstra, 1998; Milberg, 2004; Hijzen, 2004; Rugman, 2005; Narula and Zanfei, 2005; Fouquin, Nayman and Wagner, 2006; Baldwin, 2006) and some covering the broader range of issues by political economists or political scientists (Schwartz, 1994; Ruggie, 1998; Lawton and Michaels, 2000; Ernst, 2002 and 2004). Together they describe not only the picture drawn above, but a global political economy of intense competition, of both formal multilateral and tacit selective cooperation, and of intense networking and alliance-building in order to strengthen competitiveness, but also to reduce competition.

Take recent research on the US foreign economy, still a core part of the global economic system, as an example.⁴ Leaving the monetary and financial system aside, public perception of it is dominated by trade deficits, run-away industries and outsourcing, or other neo-mercantilist ways of representation. The measure of the openness of the economy that is still in use is foreign trade as a percentage of GDP. But by using firm-level data on the US foreign trade sector a team of American researchers made an innovative study that challenges these representations fundamentally. They found:

- that firms engaged in international trade of goods account for 35 percent of the total civilian workforce in the US in 2000
- that the foreign trade sector is highly concentrated as the top 1 percent of the firms (measured in terms of their trade flows) account for 81 percent of all foreign trade in goods
- that more than 50 percent of the firms in the US that import also export
- that these export-and-import firms account for 90 percent of total US foreign trade in goods, and
- that 60 percent of the imports and some 40 percent of exports of these latter export-and-import firms is taking place as ‘related-party’ trade, that is transactions between US firms and their foreign affiliates as well as transactions between US subsidiaries of foreign companies and their foreign affiliates (Bernard, Jensen and Schott, 2005 and 2007).

Following the theoretical hegemony of neo-classical trade theories most empirical studies have excessively focussed on trans-boundary flows – international trade in goods and services, transfer of technology, and flows of financial capital – as if they were arms-length transactions between independent firms. If it is generally agreed that theory ought to be grounded it is time that research in the field adjusts. As Bernard et al put it, research on the various aspects of trade (and foreign direct investment) has been “proceeded

⁴ It is also still the only country case for which satisfactory data is relatively transparent and thus accessible.

largely in parallel with little integration” (ibid.:2). Their point had already been made by DeAnne Julius. Having worked in a big corporation before joining a research institution specialized in International Relations, she argued that trade analysis should be merged with analysis of foreign direct investments in order to get a correct view of affairs (Julius, 1990). In more concrete terms the concern with flows must be supplemented, in some respects replaced by an organizational perspective that covers the networking and alliance-building as well as the strategies and internal politics of corporations; and the widespread tendency to concentrate on parts must be replaced by a holistic perspective.

The lack of integration has been addressed empirically by Markusen, Brainard and others (Markusen, 1995; Brainard, 1997; Helpman, Melitz and Yeaple, 2004; Bardhan and Jaffee, 2004). Empirical data however are mostly on the US and only more recently also cover Germany (Arnold and Hussinger, 2006) and Japan (Koike, 2004); most countries are still not covered as data are lacking, or if they exist there is little or no transparency. Moreover we still face the challenge of adjusting or integrating the various pieces of theory as empirical insight accumulates. Despite these shortcomings, however, we appear to be close to a situation where we may relate our research question to the emerging insight and ask:

Is the change in perception reported above also reflected in changes in the *politics* of economic globalization? More precisely: Will ‘deindustrialization’, ‘business process outsourcing’ (BPO) and the associated perceptions of who gets what in the process be a major stimulus to political mobilization and to responses from stake-holders in different parts of the world, notably home and host countries of FDI? If that scenario were to materialize bargaining over localisation of jobs, infant industry protection and local content requirements, technology transfer or industrial policy in general will come to the forefront. Such bargaining is already taking place in some countries at the level of domestic politics. It is less visible at the international level. One reason is certainly that there are legal limitations and regulations in agreements under the WTO, such as those on subsidies, intellectual property rights, and services. There are thus formal restrictions on the possibility of pursuing such bargaining agenda.

But any drive to make the WTO into a constitutional body that leaves politics out of it, is not very realistic.⁵ Just as classical trade politics is domestic politics and domestic politics sometimes put international non-discrimination obligations discreetly aside (in the major economies in particular), there is no reason to assume that bargaining over localisation and local content issues etcetera is not feasible. As a matter of fact manufacturing workers have for long protested the relocation of production to low-cost countries, in some cases with success. They have gotten a tremendous boost after the disclosure of possibly

⁵ See Dunoff (2006) for a thorough critique by a law professor of the constitutional drive and a defence of the need to maintain the WTO as a political bargaining body.

poisonous toys made in China under contracts by the US-based Mattel corporation.⁶ And recently employees organized in the Communication Workers of America union have sought to influence the policy-makers in individual states in the US to have them pass legislation that gives customers an automatic right to request an American alternative to the call centre in India or elsewhere.⁷

Preparing the ground for analysis

The shift from a neo-classical trade to a transnational production system perspective does not fundamentally change the scope and the participants in the political process, but the nature and domain of the process is quite radically influenced. The implication is that studies of trade policy lobbying following the classical study by Schattschneider (1935), still shaping research on government-business relations, no longer suffice. These studies have looked at relations as a bargaining process that is basically shaped by whether business – usually with support from organized labour - wants protection or liberalization of market access, and where the outcome is dependent on factor distribution, sector characteristics, or corporate strategy (Milner, 1988; Rogowski, 1989; Gilligan, 1997; Frieden and Martin, 2002). The target of contemporary bargaining processes is not primarily protection vs liberalisation, but rather regulatory regimes for investment conditions, access to competence and intellectual property rights, recruitment of labour and so on. As a result relations between government and various stake-holders are not only characterised by lobbying or pressure groups, but various types of relationships including collaboration, delegation of authority, and exchange of information.

Some of the more advanced analyses of bargaining over policy in this area are those produced on relations between private corporate actors and government, notably in the US (Hart, 2002; Mowery and Simcoe, 200x; Goldstein, 1999). These relations have been subject to considerable change over the last decades. But at the same time the strategy pursued by the two classes of actors, in particular firms, changes over time and varies across firms. Corporate leaders in the US were largely part of the ideological turn to emphasize autonomy from government or even adopt an “anti-government” position during the 1970s and 1980s. Many of those who followed such a line have, however, changed to take politics and Washington seriously. A major reason has been that they faced external constraints or what is referred to as “imperfect environmental matching” (Cyert and March, op.cit: 215). IBM and Microsoft are two examples of large and dominant actors who have changed their strategies from one of institutional path-dependence in pursuing an “autonomy from politics” line into one that converges on the “adjustment to

⁶ Financial Times, 16th Aug 2007

⁷ Chris Walker, “Expert View: Outsourcing is out – it’s a political cold potato”, *The Independent* (UK), 24th June 2007.

politics” path followed by others. Still corporate leaders, for reasons that apply to the particular firm or to its environment, pursue different strategies.

Therefore they cannot be treated as coherent interest groups; their relationship to politics and the government needs to be researched on an individual case-by-case basis (Hart, 2002).

As if this is not making our task complicated enough, we need to go beyond the framework investigated in these studies. For one thing the arena of TPS is *international* or ultimately global. And it is so in a more substantive and a different way than is the case with government negotiations over trade tariffs. It is true that the WTO covers a much larger scope and domain than did the former GATT, including some issue-areas that are salient in a process dealing with TPS; restrictions on the use of industrial subsidies, local content demands, and transfer of technology (TRIPS) are examples. The Singapore Issues are also meant to move WTO competence into labour market and environment issues. The comprehensive and complex character of the present WTO agenda has been a major trigger of closer government-business relations in several of the other major economies such as the EU and Brazil, but they have also been induced to engage in closer relationships in order to match what they have seen happening in the US capital (Woll and Artigas, 2005).

Still the range of possible conflict issues and meeting points in a process of bargaining and negotiating over issues of localisation and distribution is much larger if the whole of the TPS phenomenon is taken into account. In its totality and complexity the ‘new bargain’ involves, as we shall see below, more actors than just governments and corporations. It also creates considerable uncertainty and increased demand for information. The need to control against uncertainty applies for government as well as non-government actors, in minor but also in the major countries, and for large corporations as well as the SMEs.

Stopford and Strange (1991) proposed an analytical model to study bargaining between governments and corporations at the international level. The model describes bargaining as a triangular diplomacy between a TNC, the government of the country where it invests (host country) and its home country government. In this case the bargaining does not involve domestic politics more than marginally or indirectly; domestic interests are represented by the state. While their proposal was important at the time and the critique advanced by Yoffie (1993) not entirely deserved, our own brief encounter with the literature is sufficient illustration that the analytical model they proposed is insufficient. The analysis needs to reflect domestic political processes and thus link what goes on at the national with what goes on at the international level. And, to follow up on the assumption that corporations differ and that one has to apply the theory of the firm to open up the ‘black box’, the model also needs to engage a third channel – that of the TPS as an ‘institution’ pursuing a strategy of its own that transcends the national-international dichotomy – and link it to international and domestic politics.

The picture drawn represents an institutional turn away from the simple micro-economic transaction perspective represented by neo-classical trade theory. On the other hand a transaction perspective is retained insofar as it is associated with political bargaining processes. Moreover the turn to institutions with an emphasis on the individual firm is not inviting the strong, sometimes exclusive emphasis on the corporation as the unit of analysis that is found in much of the literature. Rather the ultimate aim of the research strategy advocated, but only initiated here would be to establish *a theoretical and conceptual framework that centres on the transnational production system or network as the unit of analysis and which analyses political processes and their outcomes from that framework.*

One puzzle to start with is whether the role of domestic politics at present is different from the role it played in international trade politics since the 1930s not the least in the hegemonic state. The checks-and-balances structure in the US that gives Congress the authority to set tariffs, favours protection interests. Until the mid 1930s trade politics were strongly influenced by local politics, at the level of congressional districts and the state. In order for free trade and open economy interests to prevail it was necessary to shift the location of trade politics to the national, federal level. That implied delegation of decision-making to the executive (Goldstein, 2000; Hiscox, 2005). But in order for delegation to work in favour of lower tariffs, policy-making had to be anchored in international agreements by which the executive would be able to 'tie its hands' and perhaps even manage international negotiation processes surrounded by a 'veil of ignorance'. It has also been vitally necessary to supplement such mechanisms to insulate trade politics from domestic interest groups with facts that demonstrate positive gains for the US economy and Americans from international trade. In reality the shift of US policy in the 1930s was a shift of tactics, not of strategy; US authorities pursued its hegemonic practice of preying on other, particularly smaller countries by shaping bilateral trade agreements in its favour (Conybeare, 1987).

The current proliferation of multilateral and bilateral regulatory regimes to protect foreign direct investments and intellectual property rights broadly speaking represents a similar drive. Where the current political economy differs from the one observed then (in the US and partly Europe) is in the scope of issues and the number and type of actors that are involved. For one thing industrial workers and farmers are not as consciously or actively involved with respect to addressing the TPS phenomenon as they were and still are when the issue is tariffs or non-tariff barriers in trade.

As I indicated above this may be changing in particular in the most dynamic region, East Asia (Frenkel and Harrod, ed., 1995). If the emergence of the 'knowledge economy' has changed the composition of the labour force in the West, including its rate of unionization, the current low unionization in newly industrialising countries may increase. Moreover civil society

associations have become relatively more important and long ago begun to engage in domestic politics and operate transnational alliances and policy networks as well. Although they have been present for a long time and even long ago been the subject of theorizing (Kaiser, 1971; Keohane and Nye, 1977; Merle, 1986) non-state *and* non-corporate actors have only more recently come to occupy a prominent role in the areas of international environment policy, human rights and corporate social responsibility as well as that of trade and finance. This transnational dimension of international politics and the political economy is much researched, but even here there is little integration with the other topics.

It is certainly an ambitious idea to design a theoretical framework that responds to these points, but it is necessary to attempt. It means to link trade to foreign direct investments by transnational corporations⁸ (TNC), and to link both activities to outsourcing and subcontracting, alliance formation and networking between as well as within the various categories of actors. The approach will thus not follow neo-classical economics theory the way Mundell built on Heckscher-Ohlin and assume that foreign direct investments (FDI) mainly work as a substitute for trade in countries that are less capital-intensive (Mundell, 1968). It could make use of Rogowski's study of politics using the Stolper-Samuelson theorem, but follow Hiscox and go beyond it (Rogowski, 1989; Hiscox, 2005).⁹ At the same time it will not endorse Hiscox's assumption that international investment can be fully understood by employing new trade theory. The approach suggested here will attempt to supplement Stopford and Strange by bringing NGOs and domestic politics into their framework, and many others by bringing in corporations and networking. It will thus pay attention to the few hundred large corporations that use FDI widely and in different settings, not only to substitute but to structure, control and initiate trans-boundary trade. Technological and organizational innovations have made it possible to disintegrate production; as a result trade is becoming more integrated across national boundaries (Feenstra 1998, 2004), mainly within the large regions that are making up the Triad (Rugman, 2005).

In order to focus the analysis (see below) we shall follow up on the advice to focus on *tasks* rather than goods (Grossman and Rossi-Hansberg, 2006). The implication of the advice could be a radical analytical change: a focus on tasks reduces or takes away the need to focus firms and sectors, and it moves the analysis of the role of labour from the collective to the individual level. It means that employees enjoy influence through each individual's mastering of technology, their competence level or their access to *knowledge*

⁸ This term is preferred to 'multinational' in conformity with the usage adopted by the United Nations, see UNCTAD's annual World Investment Report.

⁹ In his conclusion Rogowski himself opens up for this by stating that his perspective on domestic politics may be of principally historical utility and may have outlived its usefulness due to the fact that factors "move with ever greater ease across national boundaries", violating a principal assumption in the Stolper-Samuelson theorem (rogowski 1989:178). He also observes, however, that factors, even capital, are still not mobile; but that observation was made at the end of the 1980s.

more generally speaking. This clearly is to go too far. The suggestion underestimates the degree to which tasks are bundled, that one task requires many individuals to perform, and that the individual, in most cases at least, is dependent on social relations including with others who perform the same task. The suggestion thus goes too far on the road of methodological individualism in assuming rationality, unbundling of organization, and freedom of individuals to make choices independent of social and cultural context. In fact it can be argued that the second unbundling process of economic globalisation makes it more, not less difficult to predict the effects of competition and to coordinate production and distribution. Rationality thus is arguably even more bounded and the need to organise still very high.

The approach proposed – to make TPS the unit of analysis - will not privilege the corporations at the expense of other actors including the state. Framing the approach starts by *opening* up the corporation. Political economy has largely black-boxed it, whereas it should have opened it up to investigate where, when and how it relates to society, the polity and the state. This obviously does not mean that analysis may not start with the most widely applied proposition: that corporate power prevails in those circumstances where the corporation enjoys strong market power, the support of a great power state, colludes with other corporations, and deals inside the TPS with a number of weak actors from a position of strength. This type of relationship is

- a (*unipolar*) *hierarchy* where politics only influence at the margins. The approach suggested here, however, proposes two alternative types of governing a TPS:
- a relationship based on coordinating by establishing *trust* among participants; and
- a relationship based on coordination through (relatively) continuous *bargaining* among them.

In both the latter cases there may be inequality in the distribution of power, as the networked system must be led and coordinated, but it is not of the highly inegalitarian type that is found in the case of hierarchy. State agency is present in all the three types, but in varying forms and degrees. The approach thus maintains attention on the role of nation-states and the state administration as actors not only supporting, but regulating, sometimes protesting against, corporate activities. Rather than discussing in general terms whether the state is retreating or has to be brought back in, the task should be to discuss and assess the resources from which and the mechanisms by which state institutions in various types of countries and the staffs of these institutions may consolidate or adjust their influence over economic actors and processes to cope with the changes created by economic globalization.

Let us then turn to the two last mentioned types of relationship.

Networks as 'organised trust'

In Williamson's now classical text only Market and Hierarchy were highlighted (Williamson 1975). Corporate power is generally associated with the Hierarchy type of relationship; transaction costs are reduced through FDI or other means of establishing control. There are, however, several indications that those forms that represent the Network category are on the rise, a phenomenon that Williamson also pointed out ten years later (1985). These forms are arguably particularly susceptible of activating political processes, but also of representing less predictable power relations. The question is therefore: *Is networking the dynamic element in economic globalization and if so: what are the implications?*

Networking terminology varies. Charles Oman (1984), Silvio Borner (1986) and others refer to it as 'new forms of international investment' linking it closely to FDI, whereas Alan Rugman holds that "licensing and contractual arrangements are ... not internalization strategies – they are market solutions and are used and preferred in situations where risk of diffusion of the entrepreneurial advantage is small". That which need not be internalized can be licensed (or exported if the conditions for free trade were to hold). Given that the main characteristic of a transnational corporation is that it internalises its advantages and that its lead emerge from know-how, a TNC is by definition a monopolist. "Thus their contractual arrangements are fraught with danger..." (Rugman 1982:15).

The waves of mergers and acquisitions that have occurred over the last decades indicate that internalisation is still favoured. At the same time networking is clearly on the rise - as long-term development cooperation, industrial and technology alliances, subcontracting or other non-equity relationships. Rugman's warning is apparently being overlooked. Why? These arrangements appear to have been growing particularly fast in the area where the power and competitive edge of corporations is believed increasingly to reside – in R&D and innovation (Powell and Grodal 2005). The need to share high costs and hedge against risks associated with R&D represent one major explanation for networking in this area. But reducing financial risk it is not the only motive.

The theory of transaction costs introduced by Ronald Coase (1937) and later developed by Oliver Williamson explains why firms chose to internalise transactions when transaction costs are high. Market transactions are risky; in order to reduce risk transactions have to be internalised. The theory is first of all dealing with the problems of doing arms-length transactions, but there is an emphasis on risk-avoidance that also appears to represent a warning against networking forms of the kind that Rugman issued. As Williamson puts it: "The two behavioural assumptions on which transaction-cost analysis relies – and

without which the study of economic organization is pointless – are bounded rationality and opportunism”. Economic actors are “less competent in calculation and less trustworthy and reliable in action” than the neo-classical theory of the *homo oeconomicus* assumes (Williamson 1981:1545).

Coase’s ‘substantive’ theory, by some referred to as ‘realist’ but which may also be termed ‘grounded theory’, is part of the foundation of ‘new institutional economics’ (Coase, 1998). It calls for economics to open up to the other social sciences in order to interact with and learn from them (Wang, 2003). It also calls for more comparative research including on the importance and implications of institutional variation. The social system, of which both the economy, politics and the legal system are parts, represents much greater variety when new actors such as China and India enter the arena as loci of investment and request flexibility from corporate headquarters. Some transaction costs that used to be high have been much reduced by the introduction of modern ICT. It has facilitated management control of the production process in a TPS down to the least detail. However, the new technology cannot substitute for social relations. Corporate management may rely on institutions which are external to the firm and to its related actors abroad such as legislation, multilateral decision-making, dispute settlement or some other formal agreement. But the ‘constitutional’ drive that attempts to make the WTO with its GATT and TRIPS agreements into regulatory mechanisms that offer no place for politics, is unrealistic (Dunoff 2004). Politics will prevail.

Moreover social relations must be built on a minimum of *trust*. By trust in this context we mean an explicit or implicit contract built on strong ties between the firm and the suppliers of information or through some other arrangement based on weak ties (sporadic exchange). Mark Granovetter’s network theory has been further developed in both sociology ((Granovetter, 1973; Callon, 1998) and business economics (Håkansson and Snehota, 1995). A recent study argues that trust is a production factor that helps to explain the successes of the Nordic countries in maintaining their welfare state models during the globalization phase (Svendsen and Svendsen, 2006). Another important question in this part of the analysis is thus whether the apparent dynamism of establishing TPS is a quest for building trust in a situation where weak ties is otherwise stimulated (by increasing competition) and building strong ties through politics-as-usual are being disregarded (the neo-liberal ideology).

Anthropology has long emphasized the role of trust in market transactions, and confidence-building is also given a role in International Relations works on peace and security. Casson was one of the first contemporary economists to point out that confidence is often decisive for a business transaction to take place. Confidence is typically built through successful repetition of transactions (Casson 1982), a point paralleled in the

emphasis on iterated games in game theory and in the literature on 'social capital'. The Network forms were not explicitly considered by Casson, but may be the one among the three categories where trust counts the most. It represents arguably the least researched, but at the same time the most intriguing form of organising a relationship between buyer and seller of goods and services. Lack of trust has resulted in quite different outcomes depending on the circumstances. If the party considering a transaction have a choice among many possible partners and is well informed about their respective competences, she is in a strong bargaining position and may chose to trade in the market. But if she is really dependent on the object controlled by one particular party, she must take control to reduce risk, hence impose hierarchy through FDI, or if that is not possible negotiate a deal. An example of a sector where dependency exists, but where corporate dictate is not easily exercised is the oil industry. In the oil production stages government has increased its relative power practically across the world. Price and substitution inelasticity, concentrated reserves and collusion among governments at the crude oil stage have offered state institutions, or political leaders in producing countries a good bargaining position to preserve national and state control, or take bribes for their private Swiss bank accounts (or both).

An international 'bargaining society'?

Under Hierarchy, transactions are subject to close control and tighter command structures than in the case of networking, but this may change as the process is moved from the national to the international level. In the case of national bargaining games during the Fordist period and in Western countries, whatever bargaining took place was to some extent institutionalised. With transnational networking hierarchy may still prevail, but post-Fordist fragmentation of production poses new challenges that, under the assumption that bounded rationality and opportunism still holds, cannot always be addressed by relations based on strict command or trust. Bargaining varied and still varies across countries, depending on their size, resources, history, political culture and dependency or not on international markets just as capitalism varies in terms of its industrial relations and state-market institutions (Katzenstein, 1985; Hall and Soskice, 2001; Whitley, 1998). In some cases national characteristics are important, in others local and even firm-specific characteristics prevail (Frenkel and Harrod, 1995). In the typical liberal case, the US, and even within corporations that are normally assumed to run their affairs according to Hierarchy, some sort of 'implicit bargaining' in the form of a continuous 'dialogue' between managers and staff is taking place (Hart 2002).

As attention is shifted to the international level and the TPS phenomenon, Castells finds that bargaining tends to become less institutionalised at the national level and more part of a the international

‘network society’ and the new bargaining game found at that level (Castells, 2000). As we shall see below, there is considerable variance in the extent to which national bargaining is in fact taking place. Northern Europe is still offering examples of the centralised nation-wide bargaining processes described by Mancur Olson (1982). But their effectiveness may be questioned; there is a need to locate the analysis at the international level. Moving to this level we would expect to see a great variety of bargaining forms, ranging from a fairly unstructured and open-ended process on the one hand to, on the other hand, imposition of power on small subcontracting firms by a corporate ‘spider’ in the network, or a closely collaborating group of corporations imposing their will on inter-governmental negotiations such as in the case of the TRIPS agreement (Sell 2003). The latter example confirmed Yoffie’s proposition (1993) that multilateral negotiations about specific, targeted rules that define access to markets and operations abroad enhance the chances of business to exercise influence.

If the Network category represents the least structured relationship with the greatest range of possible outcomes, the politics of it also need to be captured analytically by a fairly open and flexible approach. Some factors will probably work pretty much the same way for both the Hierarchy and the Network category. In fact the borderline between the two is not easily drawn as networks may be hierarchically structured and hierarchies may be subject to challenges from below or from the outside. Networks thus represent a variety of power relations.

A study of bargaining in the oil sector and other ‘old industries’ may be conducted using the Stopford-Strange model of government-corporate bargaining (1991). For most other sectors and for the study of the TPS phenomenon in more general terms the model is not quite sufficient. In their analytical model Stopford and Strange paid special attention to market structure and some other contextual factors that condition bargaining. They proposed a scheme that would represent this bargaining and that consisted of two dimensions, national policy content and competitive structure. Each of these two dimensions was trichotomised, offering nine possible bargaining sites. They then proposed a set of factors that they believed determine the relative bargaining power of the state and corporate actors. As I mentioned above their actor set includes corporations and governments. While they accounted for a variety of theories about what factors matter in corporate bargaining strategy, they paid little attention to variety in corporate culture, political affiliations and intra-corporate matters and their possible implications on bargaining between corporations and state authorities.

To repeat: what I suggest is to employ mapping the locations of operation, structure of the value chain, and the organization of TPS as a method by which to study the politics within and around the phenomenon. We may then demonstrate what is referred to as the ‘political opportunity structure’ –

the configuration of resources, formal and informal institutional arrangements and historical precedents that facilitate or constrain the access of actors to the policy-making process (Kitschelt 1996:18). By knowing who does what, where and how in a transnational production network we should also be able to locate those spots in the structure where influence by actors other than the corporate leadership and governments may matter. After conducting the analysis through these two steps we should then be able to move on to contribute something useful to the theory of power in the international and global system.

The most advanced attempt to date to model the type of analysis suggested here and to support it by case studies is probably the one presented by Rob van Tulder and colleagues (Ruigrok and van Tulder, 1995; van Tulder with van der Zwart, 2007). It departs from the concept of 'value chain' to describe bargaining as a process taking place inside and outside the chain. Inside there is normally a core firm, a corporation that on the basis of its size and power resources assumes the position of a 'spider' in a network consisting of itself, firms working as its suppliers and dealers, and workers employed by the firm (and suppliers). Outside the chain bargaining in the industrial complex that links the network to its environment is basically with financiers and government. The relative position of these five actors is then indicated by employing five bargaining characteristics that reflect different positions on a continuum of independence vs dependence. Possible bargaining strategies (and outcomes) are classified on a conflict vs cooperation continuum.

In the most recent work the analytical scheme is further developed, but in some respects more concentrated and also changed. Variation in capitalist forms and rivalry between the forms are emphasized and potential effects on bargaining discussed. Instead of sticking to the 'standard theory's' emphasis on convergence or institutional isomorphism - one of the clearest indications of globalization - variance due to 'country-of-origin' effects and mixed motives are emphasized. In addition the authors refer to the apparent tendency for corporations to adjust to local variance in consumer habits and producer competence by what is called 'glocalisation' of strategies and an emphasis on international regions as theatre of operations.

A new category of actors, *civil society*, is also brought into the analysis. Civil society associations, or NGOs, have grown exponentially in numbers and display greater variety in the goals they pursue and the organizational forms they represent (Centre for the Study of Global Governance, 2005). Transnational as well as national civil society associations have established themselves in positions of influence vis a vis multilateral institutions (Bull and McNeill, 2006; Scholte, xxxx) and governments as well as corporations. According to van Tulder there has also been a shift in terms of which categories of civil society play a role of influence; political parties, the Church and labour unions play a less important role than they used to. At the same time he indicates that labour may be on its way to renewed influence; the 'de-unioni-

zation' that has taken place in the Western economies may have hit bottom level while the labour force in Latin America and East Asia is returning to some political influence (Lula, Morales and more) and starting to become unionized, respectively. The sum result of these change processes under globalization is the emergence of an 'international bargaining society' where there is no central decision-making centre(s), power resources matter a lot, rules matter somewhat but legitimacy more. The ways firms manage their interfaces with civil society and state actors "requires the mastering of a complex game with a large number of stakeholders engaged in an increasing number of clashes that leave ample room for regulatory voids and conflicts" (van Tulder with van der Zwart, 2007:104)

Regulatory voids are clearly large. The rules set by such agencies as the WTO are not only limited in focus, as was observed above, but also insufficient from the point of view of corporate managers. In addition to particularistic multilateral regulation such as TRIPS, governments have been asked to set up bilateral agreements to regulate host-home country relations, often with stricter rules as a result (Drahos, 2006). But even measures such as 'TRIPS-plus' have not, from the corporate point of view, sufficed to minimise risk. Big corporations thus seek and obtain agreements directly with the government of the host country. Transparent or not such framing of the bargaining setting may obviously limit the options for other actors, triggering sometimes contestation from local or transnational civil society but often ending as street demonstrations rather than affecting decision-making outcomes.

Organized labour is still a factor to reckon with, although its potential influence is extremely varied as industrial relations have developed differently (Frenkel and Harrod, 1995) and continue to do so. In China and other countries lacking a tradition of organizational freedom, authorities have been backing the formation of GONGOs, government-supported trade unions. Thus employees at WalMart units in China have become unionized. WalMart management in the US has agreed to accept it - while management still works to avoid unions in the organization back home. While the implications of this apparently paradoxical development are not self-evident, it underlines the complexity of the evolving TPS. But will WalMart managers be able to maintain its no to unionization of its American employees?

I preface the sketch of an analytical model with two assumptions. The first is that those TPS that are run as strict hierarchies, meaning that top-down command relations dominate, are left out of the analysis; that excludes some authoritarian states and weakly organized societies. 'Soft' power resources are, in other words, considered more important than 'hard' power resources and, correspondingly, ideas and knowledge and the power exercised through institutions are more important than those exercised by enforcement. If the latter is applied, leaving aside the use of sanctions allowed by the WTO or other legal instruments, you have the residual category of domination and

predation, or you have a straight power struggle with all means available including armed conflict. The second assumption is that all the three types of organization and transaction – hierarchy, network, or arms-length - are possible for any one TPS, but that their relative importance in the concrete case varies according to the type of task performed or product or service that is transacted. Generally final products tend to be more often transacted through market (arms-length) transactions than intermediate products which are typically transacted in either of the other two.¹⁰

A sketch of the analytical model

The actors identified above are actual or potential participants in the TPS as an ‘international bargaining society’. But to identify them at this general level is an easy match. It is vastly more difficult when we move beyond the actor focus - as we have to - and try to identify what actors bargain about, with what bargaining chips they do it, and what the outcome is. In order to simplify the complexity of the processes, structures and institutions described this far, we need to identify some focal points for analysis.

One focal point is *task*. In practical terms it means that the analysis would identify which tasks are strategically important in that they bring different locations and actors together in production and exchange. R&D and innovation, design and quality control, information handling, branding and sales would be such tasks, in the ‘new economy’ in particular. But the ‘old economy’ is still vital to growth and thus in many ways a matter of such task performances (Miotti and Sachwald, 2006). If the competence is found at the level of individuals or professional groups, corporations and governments both strive to organise such tasks within their respective control arenas. A large number of mergers and acquisitions are motivated by this; in addition corporations engage their budgets increasingly in R&D and innovation (UNCTAD, 2005). But concentrating the analysis on tasks inside the TPS is not sufficient. The increasing tendency to emphasize distributional and environmental concerns that civil society represents means that concerns of the society outside over such matters as quality control, environmental assessment and so on are also tasks that TPS must internalise. The toughest judge a TPS can meet is a massive consumer boycott that result from stake-holder activism. In total then, a focus on tasks relate not only to performance internal to the TPS, but to the societal and environmental *effects* of that performance. This is why there is increased attention on corporate social responsibility and on climate change.

The character of activities by a TPS and their effects will determine whether or not agency by the outside - governments, civil society, other TPS

¹⁰ Martin Srholec helped me make this distinction.

and so on - are engaged and thus take part in bargaining. Legal as well as ideational or cognitive barriers may come in their way. Legal barriers intervene if or when governments and civil society are prevented by law or treaty to take action. But the more globalization turns into 'glocalization', and the more visible are the societal and environmental effects, the more likely is it that agents from the outside *will* take part in bargaining. Domestic politics are not completely set aside by international treaties; politics appear rather to be mobilised by them. On the other hand legal action is an alternative to bargaining, in particular in societies where litigation is commonplace. Cognitive barriers occur when an agent does not perceive the way the TPS affect her or the way it affects other agents inside or outside it. It thus becomes an important part of the analysis to map whether or how various actors working inside the TPS or being affected by it *perceive* it. Failure to understand its structure and processes of operation may result in failure to bargain effectively, including for instance failure to see the potential for building alliances to strengthen the bargaining position.

If bargaining inside the TPS *is* in fact insulated from the outside, the bargaining mode may be referred to as

(a) Transnational bargaining: simple

Transnational bargaining logically concerns distributive issues that cut across national boundaries and levels of social organization. It may be global in reach but mostly regional, plurilateral or bilateral. Few corporations have affiliates or subcontractors in more than a dozen countries. Using this bargaining model implies that the number of variables and actors to be dealt with is relatively low. Any empirical mapping of the actual TPS confirms this precaution; even companies operating from small economies draw on innovating agents and producers in a number of countries (Benito et al., 2002; Herstad and Jónsdóttir eds. 2006). In the latter case the company may attempt to position itself the way the big corporation will – as the spider in the web, at the core of the value chain as Ruigrok and van Tulder put it. The bargain is between the core actor(s) directly engaged in allocating tasks in the production and distribution of a given product. They are the suppliers or subcontractors, workers who carry out the actual production process, and distributors or dealers who deliver the goods to customers (Ruigrok and van Tulder 1995, chapters 4 and 5).

If the number of issues and the number of actors are highly concentrated, the bargaining is more likely to be of the simple type whereas it is complex if the scope of issues and the number of actors are large. Neither of these ideal-typical models apply neatly in the case of crude petroleum and maybe not, for the time being at least, in any TPS that involves China. In those cases you have a sector with considerable concentration of issues and actors, strong state presence, and in the case of China a country (still) with an authoritarian decision-making structure. There is no representation of civil society and

labour that is independent of the state; the GONGO is not another labour union (Naïm, 2007). In such cases Stopford-Strange bargaining may apply, but the fact that civil society has mobilised to challenge such TPS on their human rights and employment effects would make even China and certainly countries with a nascent civil society participation part of transnational TPS subject to simple bargaining processes. In this type of case, and not considering China primarily, domestic politics enter with force into debates over state agency and the two-level diplomacy model would be required to assist us (Evans, Jacobson and Putnam, 1993). In this type of cases Rogowski's analytical model can be applied, but with the caveats that he himself indicated in his conclusion – the analysis must take into account that factors are increasingly mobile and that it must be developed to take into account ownership and control. His model cannot easily deal with a situation, described above, where activities associated with FDI and the operations of transnational corporations' abroad are much more important than foreign trade proper, the focus of Rogowski's study. Issues such as subsidies, technology transfer and local content (linkages to local industries) are only marginally dealt with in bargains over trade tariffs and subsidies.

In cases where the number of issues and actors is large and outside agency intervenes in the TPS, we have

(b) Complex transnational bargaining

If affiliate or subcontracting firms are members of national industry associations, workers are organized in unions belonging to transnational associations, and the state, financial institutions not to speak of international multilateral institutions have stakes in the outcomes of TPS bargaining processes they will certainly wish to influence them. The institutions just mentioned are, however, differently engaged in these processes simply because they are either not sufficiently informed about them, And in some cases they will succeed, depending on the characteristics of the case, the distribution of power resources among participants, and purely contextual factors (market fluctuations, ecological concerns, etc.).

Parsimony, if at all possible, is always to be preferred. Therefore: How can we possibly model such a bargaining situation and process without ending up in too much complexity?

Obviously we may start with identifying some actors as having more power than others and make hypotheses about outcomes from such an *a priori* power perspective. Differentiations of large vs small power potential according to various aspects of power, size, skill level, core position in the network, and so on will then apply. A particularly useful approach would be to identify power resources which are strategic in the sense that they will, *ceteris paribus*, trump other resources in a bargain. Such strategic power resources and the ability to apply them will naturally vary with case and context, but it is possible

to identify some in leading technology and knowledge in a broader sense, in good total productivity performance, in having access to the support of great power government, and so on. If such resources are linked to tasks that appear to be strategic in the sense that they are performed across many sectors, bargaining opportunities are also strongly affected by the type of tasks performed. Tasks are subject to development as technology changes, and their relative importance also change as The TPS phenomenon has arguably grown out of a radically new option - that tasks differ very much with respect to whether they may be moved or not (Baldwin, 2007). Booking tickets on an airline and producing intermediate goods for a car can be moved, but offering private security by using 'guard labour' in crime-stricken US communities cannot. The latter type of activity appears to require a large and growing number of employees (Bowles and Jayadev, 2007).

There are what may be called 'partial bargains' at various levels of bargaining and some actors may, by convention, by agreement or by their relative power, have more influence at one level than on another. Bargaining in and around a TPS is for example framed by contextual factors which are also in some way subject to bargaining. They are competition, legal right to regulate, and multilateral regimes on tariffs, local content, work conditions and so on. In these bargains the state has an obvious role to play, sometimes a monopoly.

The participation or not of civil society and labour is often the factor that decides whether the bargain is of a simple or complex type. At the outset these two actor categories are national or local; they play less of a role at the international level than do corporations and the states. The latter are rivals, but also often work together to frame the bargain and exercise power. For civil society and labour to be able to play up to them they need to make transnational alliances and organizations.

In October 2006 the two formerly independent world associations of trade unions came together to form one global organization (still without unions of a communist character), the International Confederation of Trade Unions (*Le Monde* 31 Oct 2006). More than half of its members are found in Europe, but it has member units in more than 160 countries. It has yet to prove that its potential power sticks in a way that may match that of transnational associations of employers (capitalists). One reason may be that labour still organizes mainly according to the 'old economy' construction of the world; sector organizations such as the International Metalworkers Association represent one example. A more recent and still not well researched phenomenon is the organising of labour along transnational corporate lines whereby labour fractions in various national jurisdictions working within one and the same transnational corporation become coordinated to face corporate headquarters. The EU has acknowledged such a 'model' as something that European workers have a right to take part in; it is also practiced in some

Norwegian corporations.¹¹ At the level of international collaboration among national federations recent changes may also indicate a shift of strategy to adjust to globalization.

Or is it rather the case that locally or nationally organized challenges to a TPS allying inside with outside agency are the most effective in influencing it? A credible bargaining strategy is one that has the ability to threaten with credibility the smooth running of the TPS. The transnational organization of workers may still be too slow in action and too weak in handling difficult issues of accommodating the interests of members of different national constituencies to exercise any meaningful power on the TPS. And too much based in the 'old economy' to be of interest to highly skilled service employees say in India. It appears easier to organize civil society groups to act against polluting industries in that country (Natraj, 2002). Well targeted and timed action by actors acting in close cooperation towards a strategic element in the TPS may be an effective way of influencing the running of it. Such action may be effective as the organizers have full rationality: they know that aspect of the TPS which they plan to bargain over. It may be more difficult for transnational alliances of workers or civil society to have similar full rationality - and even for corporate 'spiders' the assumption of bounded rationality may still hold.

These are another set of reasons why it makes sense to conduct the type of analysis proposed here.

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¹¹ The best known example is the company Kværner which acquired the British company Trafalgar House and some other companies in the late 1990s and within which the labour unions at their own initiative organized regular consultations among the various local unions and in a few cases collective bargaining with corporate headquarters.

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