

# Monty Graham's Contribution to Foreign Direct Investment and Related Studies: A Short Personal Tribute

John H. Dunning

Presented and read by C. Fred Bergsten at the Conference Celebrating the Career and Work of Edward M. Graham

Peterson Institute for International Economics  
September 18, 2007

Monty,

It gives me great pleasure to write a short, but nevertheless heartfelt, tribute to your scholarly work on foreign direct investment (FDI). We have been friends for over 25 years, since I first met you when you were a consultant to OECD in Paris. Since the 1980s I have followed your professional career, first at Duke University, and then at the Institute for International Economics, with the greatest of interest: I've enjoyed our time together at international conferences and seminars and have missed you greatly at the various meetings I have attended since the mid-1990s.

Monty, you have made a most distinctive and valuable contribution to our understanding about the causes and consequences of FDI and multinational entity (MNE) activity; and, latterly, to that of economic globalization. The quality and breadth of your writings are well known and are highly respected by international and industrial economists and by policymakers. In this tribute I will identify three of these which I believe are closest to the interests of my colleagues and myself undertaking international business research.

First, your contribution on the determinants of cross-border investment: Ever since your PhD from Harvard (I think in 1974) through an important paper you wrote for the *Journal of International Business* in 1998, you have enriched our understanding of the role played by strategy in framing the conduct of oligopolists in engaging international business activity. Your celebrated "exchange of threats" thesis in explaining FDI by European MNEs in response to US direct investment on the former's home territory, filled an important gap in the extant theory of FDI. Over the intervening years, you have formalized and refined your model, and in the *Journal of International Business* piece you specifically applied a game theoretic approach to our explication of the behaviour of international oligopolists.

Monty, I wish that international business strategists had taken your approach and analysis more to heart. As you yourself rather ruefully conceded in a paper you published in 2002 on cross-border investment and effects on competition in the telecommunication sector “amazingly little research on multinational firms takes into explicit account the fact that these firms participate in oligopolistic markets whereby the strategic mores of any one firm must always be conditioned by the expected response of rival firms.”

Monty, I believe the time is highly appropriate for a renaissance of your work concerning the collusive and noncollusive activities of MNEs. Indeed, in the light of both a huge increase in asset augmenting cross-border mergers and acquisitions (M&As), and the burgeoning of nonequity strategic alliances—both horizontal and vertical—I would submit that the concept and implications of the words collusion and noncollusion need to be reappraised. To take just two examples, the motives for intraindustry FDI in research and development and the determinants of the growth of FDI from third world countries (especially China) have so far been examined by international business scholars using transaction cost, resource-based or evolutionary models. Yet I believe that each of these happenings—and several others I might add—cannot be explained without the strategic approach that you helped pioneer.<sup>1</sup>

Secondly, Monty, I have been increasingly impressed over the last two decades by your contribution to our knowledge and understanding about the consequences of FDI—particularly from the viewpoint of host countries. Here the breadth and quality of your research output is quite remarkable. Even in my small home library of books and papers, I have counted 15 contributions of yours on FDI related issues—of which, I am proud to say, no less than eight were in journals or monographs to which I also contributed!

Perhaps your best known empirical contribution on FDI is your volume on FDI in the United States that you wrote with Paul Krugman. I and many of my colleagues regard this as a minor classic and an exemplar to graduate students, researchers, and policymakers. But from my bookshelves, I am reminded you have also contributed studies on Canadian-US FDI, on FDI in Japan (I believe your edited volume with Masuru Yoshitomi in 1996 was one of the first scholarly examinations of this topic), and most recently you have put together an excellent edited volume with Ted Moran and Magnus Blomström covering the important topic of FDI and development.

In each of these ventures, Monty, you have demonstrated what I regard as one of your many unique talents: that is, to combine rigorous economic analysis with first rate empirical research and carefully framed policy recommendations—and to do so in an eminently readable way. Your work is an exemplar of economics at its very best. But more than this, you, as much as any economist I know, have helped build an important bridge between international industrial economics, international political

---

<sup>1</sup> It is interesting to note that over the last two decades or more, more work has been done on strategic trade theory than on strategic FDI theory.

economy, and international business research. A quick review of your citations reveals that your work is extremely highly regarded by both senior and junior international business scholars.

Again, Monty, another personal thought! If I were to advise on the direction of further scholarly research in both the determinants and effects of FDI, I would give even more emphasis to the role of institutions and also to the social and environmental issues affecting MNE activity. Once again, there are nuggets of wisdom in anticipating future events in the FDI in the US volume. Most noticeably, you and Paul give some attention to national security issues—and, my goodness, how important are these in affecting the character and location of FDI today! In other volumes to which you have contributed chapters or have edited, the environmental issues are broached. And there are hints in the latest volume with Ted and Magnus that you think it appropriate to recognize the relevance of wider goals than GNP growth in any assessment of the costs and benefits of FDI.

Here again questions of collusion or noncollusion critically enter the picture. For example, I have just been reading a recent volume by George Lodge and Craig Wilson which is subtitled *How Multinationals Can Help the Poor and Invigorate Their Own Legitimacy*. One answer they give is to develop more sustainable partnerships between MNEs and governments—each contributing what it can do best. Is this a form of collusion—possibly and leading to beneficial outcome? I don't know. But what I do know is that poverty alleviation is likely to be central to the global economic and political agenda for the foreseeable future, and your kind of interest and expertise is desperately needed if the Millennium Development and similar objectives are to be advanced efficiently and fairly. I think we as scholars should capitalize in any way we can to inject sound economic reasoning into the FDI debate. Some work I am currently doing with UNIDO in sub-Saharan Africa suggests the time is extremely opportune for a more genuine partnership between all the stakeholders involved—both private and public—in both promoting economic development and “owning” some of its results.

This brings me to briefly consider the third contribution of your research, Monty—that is, to policymaking and institutional upgrading. In some respects, I view this as your most influential work. Why? Because there is so much ill informed and sloppy thinking about what should be the appropriate national government policies and actions or recommendations by supranational entities towards FDI and MNE activity—and latterly towards globalization—that your clear and incisive analysis of the issues and your carefully worded but eminently practical recommendations for decision making are so refreshing. I know many of my colleagues in international business interested in the international political economy of MNEs have greatly benefited from your thoughts and ideas; although, like you, I would hope the messages you are trying to convey would be accepted by a much wider audience.

In this short tribute, I have only space to mention two of your policy-oriented writings. The first is a masterly summary of how national governments and supranational institutions best capture and foster the beneficial effects of cross-border flows in capital, technology, and managerial expertise. Published in

1996, while acknowledging the economic case for some kind of multinational investment accord, you recognized that unless the clash between the (different) objectives of nation states and those of MNEs is resolved by some effective dispute mechanism, such accord is unlikely to be achieved. You explored the international treatment of FDI in more detail in a chapter in my edited volume *Governments, Globalization and International Business* published in 1997. In doing so, you not only reviewed the role of the different supranational authorities, but in exploring the alternative avenues for policies towards FDI and MNEs, you came down in favor of the WTO as the supranational organization most likely to foster a binding international investment agreement. So far, of course, this has not yet come to pass.

Yet, Monty, perhaps my personal favorite of your recent work is your volume *Fighting the Wrong Enemy*. As I read it I kept on saying to myself, “Yes, yes, yes!” You hit the nail on the head so many times again in your urbane and concise manner. I think the book should be compulsory reading for all national governments and antiglobalization activists. I liked it, too, because it touched upon a variety of social and environmental issues. But might I suggest that any future edition might look even deeper into these and other noneconomic objectives by which globalization is increasingly being judged and also give more critical attention to the national institutions that, I think, need to be reconfigured and upgraded prior to there being any worthwhile or sustainable multilateral investment agreement. I would like to explore some of these thoughts with you, but in my own contemporary work on the globalization of FDI and MNEs, I am increasingly focused on both the multiple goals of development and restructuring, and the role of both private and public institutions in helping to advance these goals.

Once again Monty, I am so sorry not to be with you today. I have been so impressed by your positive and courageous response to your illness over the last few years. Not only your writings—but you yourself—are an inspiration to us all. Please accept my own personal and warmest regards.

John