

**A THEORY OF INTERNALISATION
BY MULTINATIONAL CORPORATIONS
Part II**

《Summary》

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In order to develop the Reading School's theory of internalisation, a model of sunk-cost with minimum optimal scale is introduced in Part I of the paper. Section IV in this Part II evaluates how the Reading School conceptualises the gains from internalisation the MNC exploits from its variety of activities overseas by comparing it with the Kojima criterion.

It is the MNC's virtue to increase social welfare when it produces useful goods and services at lower cost (that is, to operate under decreasing cost conditions), whereas it is the MNC's sin to adopt monopolistic behaviour through internalisation and maximises quasi-rent. Section V looks at this dual character of the MNC.

Internalisationists stress that it is profitable for the MNC to switch from exporting to overseas production. This hypothesis is critically examined in Section VI. It is shown that such a switch is supportable from a social welfare point of view only if overseas production leads to a superior mode of production in line with I call "pro-trade oriented direct foreign investment (DFI)". However, the DFI induced by the existence of tariffs and other trade barriers normally results in an inferior mode of production, facilitating only market-share-seeking monopolistic behaviour i.e., it becomes "anti-trade oriented."