PART ONE

RECENT TRENDS

CHAPTER I

GLOBAL TRENDS IN FOREIGN DIRECT INVESTMENT

The stock of foreign direct investment (FDI), a measure of the productive capacity of transnational corporations (TNCs) in foreign countries, reached some $2 trillion in 1992 (table I.1). Over 170,000 foreign affiliates of some 37,000 parent firms generated approximately $5.5 trillion in world-wide sales in 1990. This compares with world exports of goods and non-factor services of $4 trillion, of which one third took the form of intra-firm trade. Annual world-wide flows of FDI grew rapidly during the second half of the 1980s (table I.2 and annex table 1), but then declined in 1991 and, based on preliminary data, again in 1992.[1] Even so, annual flows of FDI remain substantial, and have contributed to a significant growth in the global stock of FDI. Their growth will be stimulated by the further liberalization of FDI regulations that took place in 1992.

A. Trends

World-wide outflows of FDI declined in 1991 for the first time since 1982, largely because of the economic slow-down in the major developed countries. They totalled $180 billion, down from over $230 billion in 1990. The two main components of this decline were a fall in outflows from Japan (which accounted for more than one third of the world-wide decline and almost half of the decline from the five major home countries), and sizeable falls in outflows from Western Europe (accounting for about 60 per cent of the world-wide decline), largely because of the performance of France, Germany, the Netherlands and Sweden. Outflows from the United States and the United Kingdom did not change in 1990 and 1991 (table I.3). Preliminary estimates for 1992 show that world-wide outflows, including total outflows from the five major sources of FDI, have declined further.

Outflows of FDI from developing countries also declined in 1991, after several years of strong growth (table I.4), particularly from the Asian newly industrializing economies (chapter II). The share of developing countries in FDI outflows was over 3 per cent in 1986-1990, well up on their 0.7 per cent share in 1970-1975. The estimated stock of FDI from developing countries was $110 billion by the late 1980s, accounting for between 8 and 10 per cent of the world total (TCMD, 1993b).[2] Many more developing countries are now involved in FDI, and the geographical spread of their investments has also widened. It now includes developed countries, in which FDI from developing countries accounted for some 5 per cent of the total stock of inward investment in the late 1980s.

Despite the decline of world-wide FDI flows in 1991, FDI flows into developing countries continued to grow (table I.4 and annex table 1). Developing countries received over 25 per cent of all inflows in 1991, much

Table I.1. Stock of foreign direct investment, by country and region, 1987-1992
(Billions of dollars)

	Year					
Region/country	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*[a]
A. Outward						
France	41	56	75	110	134	151
Germany, Federal Republic of	91	104	122	140	169	186
Japan	78	112	156	204	235	251
United Kingdom	135	172	208	226	244	259
United States	339	353	379	408	438	474
World	1 000	1 169	1 382	1 616	1 799	1 949
B. Inward						
Developed countries	787	920	1 088	1 260	1 369	..
Western Europe	357	419	507	616	702	..
North America	342	405	476	528	544	..
Other developed countries	88	96	105	116	123	..
Developing economies	212	241	270	300	338	..
Africa	22	25	30	32	35	..
Latin America and the Caribbean	84	95	104	114	129	..
East, South and South-East Asia	106	121	136	154	174	..
Central and Eastern Europe	..	..	..	..	..	..
World	999	1 161	1 357	1 560	1 709	..

Sources: UNCTAD, 1993e; and annex table 2.

Note: The levels of world-wide inward and outward FDI stocks should balance, in principle; however, in practice, they do not. Several reasons have been cited as the cause for the discrepancy, including differences in the treatment of unremitted branch profits between inward and outward direct investment; treatment of unrealized capital gains and losses; the recording of transactions of "offshore" enterprises; differences in the recording of reinvested earnings between inward and outward direct investment; differences in the method of collection, valuation and reporting of FDI between countries; and differences in the treatment of real estate and construction investment; and differences in the threshold definition between inward and outward direct investment (which, however, has not been found to be a significant source of the discrepancy).

a Estimated.

Table I.2. World-wide foreign direct investment and selected economic indicators, 1991, and growth rates for 1981-1985, 1986-1990 and 1991
(Billions of dollars and percentage)

Indicator	Value at current prices, 1991	Annual growth[a] (Percentage) 1981-1985	1986-1990	1991
All countries[b]				
Foreign-direct-investment outflows	180	4	24	-22
Foreign-direct-investment stock	1 800	7	16	11
Sales of transnational corporations	5 500[c]	2[d]	15	..
Gross domestic product at market prices	21 500	2	9	3
Gross domestic investment	4 900	0.5	10	3
Exports of goods and non-factor services	4 000	-0.2	12	2
Royalties and fees receipts	34	0.1	19	4
Developed countries				
Foreign-direct-investment outflows	177	3	24	-21
Gross domestic product at market prices	17 200	3	10	5
Gross domestic investment	3 800	2	11	5
Exports of goods and non-factor services	3 000	2	12	1
Royalty and fees receipts	33	0.2	19	5
Developing economies				
Foreign-direct-investment inflows	39	-4	17	24
Gross domestic product at market prices	3 400	0.2	8	-2
Gross domestic investment	800	-3	9	-2
Exports of goods and non-factor services	930	-3	13	4
Royalty and fees payments	2	-1	23	-26

Sources: UNCTAD, Programme on Transnational Corporations, based on International Monetary Fund (IMF), balance-of-payments tape, retrieved in February 1993; World Bank, 1992c; and unpublished data provided by the World Bank, International Economics Department.

a Growth rates in all tables in this volume were calculated at an annual compounded rate, derived from a semi-logarithmic regression equation.
b Data on developed and developing economies do not equal those for all countries because of the inclusion of Central and Eastern Europe in the item on "all countries".
c For 1990.
d For 1982-1985.

more than their share in 1986-1991 and equal to their share in the first half of the 1980s. In 1992, their inflows of FDI have increased further, to an estimated $40 billion. All parts of the developing world benefited from this increase. The strong growth of inflows to East, South and South-East Asia persisted. Sustained profitability of investments in South and South-East Asia is expected to result in further growth of inflows in the 1990s, particularly from Japan, as the region develops an integrated production structure.[3] There has been a substantial increase in inflows to Latin America and the Caribbean as well. Transnational corporations have been attracted to that region by economic recovery, liberalization in FDI policies and, in many countries, privatization opportunities. Privatization, in fact, is increasing opportunities throughout the developing world (box I.1). Africa too, had an increase in FDI inflows in 1991, largely from mining companies. Despite this widespread growth,

Table I.3. Outflows of foreign direct investment from the five major home countries, 1987-1992
(Billions of dollars and percentage)

Country	1987	1988	1989	1990	1991	1992[a]	1981-1985	1986-1990	1991	1992	1981-1985	1986-1990	1991	1992
	(Billions of dollars)						*Share in total (percentage)*				*Growth rate (percentage)*			
France	9	14	19	35	24	17[b]	6	10	13	11	-17	45	-31	-29
Germany, Federal Republic of	9	13	18	28	21	17	9	9	12	11	13	27	-24	-19
Japan[c]	20	34	44	48	31	16[b]	11	19	17	11	8	32	-36	-48
United Kingdom	31	37	35	18	18	15	19	17	10	10	-2	2	2	-17
United States[d]	26	14	26	29	29	36	23	13	16	24	-5	16	-0.4	24
Total	95	112	142	158	123	101	68	68	67	67	.01	23	-22	-18

Sources: UNCTAD, Programme on Transnational Corporations, based on TCMD, 1993c; and IMF, balance-of-payments tape, retrieved in February 1993.

a Based on preliminary estimates.
b Estimate based on outflows in the first three quarters of 1992.
c Data for Japan do not include reinvested earnings.
d Excluding outflows to the finance (except banking), insurance and real estate industries of the Netherlands Antilles. Also excludes currency-translation adjustments.

Table I.4. Inflows and outflows of foreign direct investment, 1987-1992
(Billions of dollars and percentage)

Country	1987	1988	1989	1990	1991	1992[a]	1981-1985	1986-1990	1991	1992	1981-1985	1986-1990	1991	1992
	(Billions of dollars)						*Share in total (percentage)*				*Growth rate (percentage)*			
Developed countries														
Inflows	109	132	167	172	108	86	74	83	74	68	0.2	24	-37	-20
Outflows	132	162	203	225	177	145	98	97	97	97	3	24	-21	-18
Developing economies														
Inflows	25	30	29	31	39	40	26	17	26	32	-4	14	21	3
Outflows	2	6	10	9	5	5	2	3	3	3	33	45	-39	0
All countries														
Inflows	135	162	196	203	149	126	100	100	100	100	-0.9	22	-27	-15
Outflows	135	168	213	234	183	150	100	100	100	100	4	24	-22	-18

Sources: UNCTAD, Programme on Transnational Corporations, based on UNCTAD, 1993c; 1993d, 1993e, UNCTC, 1992b; TCMD, 1993c; TCMD and ECE, 1992; World Bank Group, 1992c; IMF, balance-of-payments tape, retrieved on 17 February 1993, and OECD estimates.

a Based on preliminary estimates.

Box I.1. Foreign direct investment and privatization

The change in government attitudes to TNCs is best illustrated by what has happened to the nationalization of foreign affiliates and the privatization of state-owned enterprises.

The last significant wave of expropriations of FDI began in the mid-1960s and reached its peak in the early 1970s, with the actions of OPEC countries (figure 1). It was driven largely by two beliefs. First, that control over natural resources and key industries is a prerequisite for greater independence in managing national economic development. And secondly, that control is best achieved by public ownership.

By the mid-1970s, these beliefs were starting to fade, and expropriations were declining. Most developing countries were heavily in debt, and needed foreign capital; and their state-owned enterprises were performing badly. In many countries, FDI started to be seen as a means to acquire capital, technology, management and other skills from abroad. It also started to be seen as a natural marriage partner in a privatization programme.

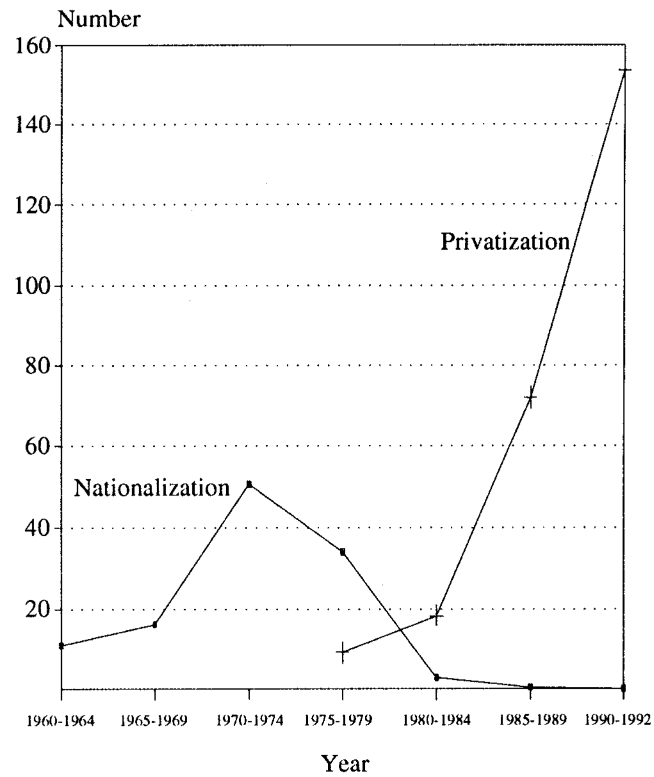
Although privatization has been embraced throughout the world, it has taken different forms in different countries. Developed countries, with established capital markets and more reliable methods of valuation, have gone for large offerings. Developing countries have favoured a larger number of smaller privatizations.

All sectors have seen some privatization but industrial enterprises, particularly in developing countries, have been the most popular target to date. This pattern may soon give way to a greater emphasis on service companies. In developed countries, a willingness to canvas new ways of delivering "public goods" is opening more capital-intensive service activities, such as public utilities and telecommunications, to privatization. And many developing countries and formerly centrally planned economies, which had historically neglected their service industries are now seeking rapid modernization, in which privatization will probably have a central role.

A comprehensive picture of TNC participation in worldwide privatization is difficult to obtain. However, the involvement appears strongest in Western Europe and Latin America, often through joint ventures with domestic firms. In Central and Eastern Europe, where markets are close by, TNCs have taken a prominent and, oftentimes, strategic role.

It would be wrong, however, to rule out a possible reversal of this trend. As the influence of short-term imperatives recedes, the desire of Governments to regain greater control over decision-making could return. This is particularly likely if economic growth remains weak, FDI proves a disappointment in transferring technology and skills, or if world markets are closed by protectionism. Policy makers and TNCs must ensure that FDI, including investments acquired through privatization, fully contributes to sustained long-term development.

Figure 1. Changing moods: the number of nationalization acts and privatization activities, 1960-1992[a]



Sources: UNCTAD, Programme on Transnational Corporations, data bank; Minor, 1993a and 1993b; and the World Bank, 1992b, chapter 7.

a Nationalization numbers refer to the average number of acts per year during the period indicated. The number of privatization activities refers to the average number of firms privatized per year during the period indicated.

the distribution of FDI flows to developing countries has not changed. The 10 largest host countries continue to receive two thirds of all inflows (annex table 4). Foreign direct investment flows to the least developed countries grew by 12 per cent in 1991 to $183 million—less than a fifth of the inflows to Hong Kong.

Foreign direct investment in Central and Eastern Europe increased during 1991 and the first half of 1992 to reach an estimated $12 billion in total capital commitments. These investments are attracted by large local markets and the proximity to Western Europe, and helped by a further liberalization of their FDI regimes. The region's main drawbacks continue to be the decline in GDP and the difficulties of the transition from centrally planned to market economies. However, with developing countries, FDI is unevenly distributed among the countries of Central and Eastern Europe.

Geographical patterns aside, one of the striking features of FDI in 1991 was that the share of FDI financed through new equity capital and inter company loans had increased considerably between the periods 1981-1985 and 1986-1991, while the share of reinvested earnings has declined (table I.5). This change may be due to the lower profits earned in developed countries during the late 1980s. Significantly, too, inward flows of FDI to these countries owed little to reinvested earnings in 1990-1991 (figure I.1), a period marked by somewhat lower rates of return on business capital and negative reinvested earnings on FDI.[4] Generally, the longstanding foreign inves-

Table I.5. Share of reinvested earnings in outward foreign-direct-investment flows, 1981-1985, 1986-1990 and 1991
(Percentage)

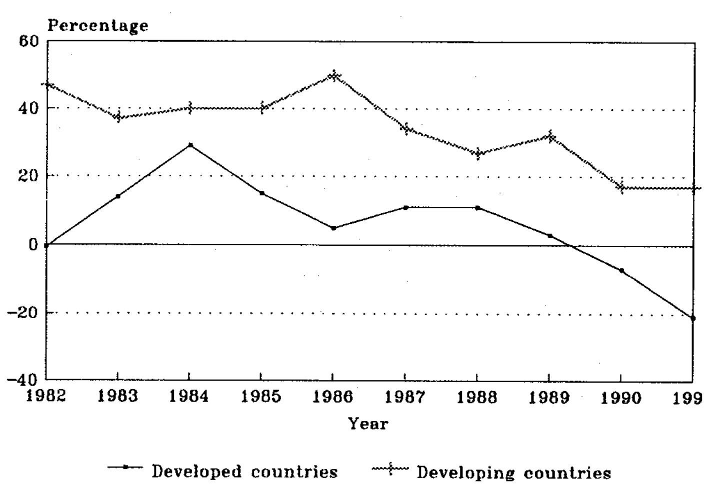
Home country	*1981-1985*	*1986-1990*	*1991*
Australia	23	32	35
Finland	-19	5	-
Germany, Federal Republic of	5	13	17
Israel	10	33	11
Netherlands	29	21	-
New Zealand	96	43	77
Sweden	25	19	18
Switzerland	61[a]	35	20
United Kingdom	50	45	68
United States	116[b]	71	61
Total, above	60	39	38

Sources: UNCTAD, Programme on Transnational Corporations, based on TCMD, 1993c; IMF, balance-of-payments tape, retrieved in February 1993.

a For 1983-1984.

b A share higher than 100 per cent is obtained when one of the other two components of FDI flows (equity capital or intra-company loans) is negative.

Figure I.1. Share of reinvested earnings in inward foreign-direct-investment flows, 1982-1991
(Percentage)



Source: UNCTAD, Programme on Transnational Corporations, based on UNCTAD, 1993e.

tors—such as the United Kingdom and the United States—have a higher proportion of reinvested earnings in their FDI outflows than do the newer home countries.

In terms of inflows, reinvested earnings are a considerably larger component of FDI in developing countries than in developed countries (figure I.1). In the latter group, inward FDI is financed overwhelmingly from funds brought in from abroad, whereas in developing countries, FDI depends more on profits earned there.[5] It is not clear whether that contrast is due to the difference in profits earned in two regions or to different rates of profit repatriation, dependent, *inter alia*, on policies of host countries. If majority-owned foreign affiliates of non-bank United States parent firms are any guide, they earned much higher profit rates in developing countries: 8 per cent in the period 1983-1990, compared with 5 per cent in developed countries (United States Department of Commerce, 1992b and various earlier issues).[6] At any rate, the share of reinvested earnings in the FDI inflows of both developed and developing countries in the early 1990s have declined from their levels a decade earlier; and other components of FDI (equity capital or intra-company loans) constitute the greater part of FDI inflows.

B. The universe of transnational corporations

The number of TNCs has been increasing steadily. Those that are based in 14 major developed home countries have more than tripled during the past two decades, from slightly more than 7,000 in 1969 (DESA, 1973) to nearly 24,000 in 1990.[7] Companies from developed countries continue to dominate the TNC universe, though a growing number of firms headquartered in developing countries and some firms from Central and Eastern Europe joined them especially during the 1980s. Furthermore, even though the share of foreign assets controlled by the largest firms is still very high, the role of small and medium-size enterprises is significant and growing.

1. Size and characteristics

(a) *Parent transnational corporations*

According to estimates based largely on national official sources of almost all developed countries and a number of other countries, the number of parent TNCs in the world at the beginning of the 1990s was almost 37,000, controlling some 170,000 foreign affiliates (table I.6).[8] This 37,000 figure covers only those firms that have equity stakes in enterprises abroad, of either more than 50 per cent (wholly- and majority-owned foreign affiliates or subsidiaries, and branches that are legally part of the parent firm), or between 10 and 50 per cent (minority-owned foreign affiliates, or associates). It does not, therefore, include firms that control assets abroad through various non-equity ties (for example, management contracts, transfer-of-technology contracts, sub-contracting agreements, franchising) and that are linked with other firms through strategic alliances. No data are available on those, but estimates are that strategic alliances number in the thousands and subcontracting agreements alone in the hundreds of thousands (Hagedoorn, 1992; Dunning, 1992).[9] The estimate of 37,000 does, however, include firms that are themselves affiliates of parent TNCs based in other countries.[10] Overall, even if

Table I.6. Number of parent transnational corporations and foreign affiliates, by area and country, early 1990s
(Number)

Area/economy	*Parent corporations based in country*	*Foreign affiliates located in country*[a]	*Year*
Developed countries	33 500	81 800	
Australia	1 036	695	1992
Austria	679	2 221	1990
Belgium and Luxembourg	96	1 121	1978
Canada	1 308[b]	5 874	1991
Denmark	800	647[c]	1992
Finland	1 300	1 000	1992
France	2 056	6 870	1990
Germany, Federal Republic of	6 984	11 821	1990
Greece	..	798	1981
Iceland	14[d]	28	1991
Ireland	30	956	1992
Italy	263	1 438	1992
Japan	3 529[e]	3 150	1992
Netherlands	1 426	2 014	1992
New Zealand	201	1 078	1991
Norway	1 321	2 854[f]	1990
Portugal	684	6 680	1992
South Africa	..	1 884	1978
Spain	744	6 232[g]	1992
Sweden	3 529	2 400	1991
Switzerland	3 000	4 000	1985
Turkey	..	267	1989
United Kingdom	1 500[h]	2 900[i]	1991
United States	3 000[j]	14 900[k]	1990
Developing economies[l]	2 700	71 300	
Brazil	566	7 110[c]	1992
China	379	15 966[f]	1989
Colombia	..	1 041	1987
Hong Kong	500[m]	2 828	1991
India	187	926[f]	1991
Indonesia	..	1 064	1988
Mexico	..	8 953	1989
Oman	..	1 489	1989
Pakistan	57	560[g]	1988
Philippines	..	1 952	1987
Republic of Korea	1 049	3 671	1991
Saudi Arabia	..	1 461	1989
Singapore	..	10 709	1986
Taiwan Province of China	..	5 733	1990
Former Yugoslavia	112	3 900	1991

/.....

(Table I.6, cont'd.)

Area/economy	*Parent corporations based in country*	*Foreign affiliates located in country*[a]	*Year*
Central and Eastern Europe[n]	400	21 800	
Bulgaria	26	114[b]	1991
Commonwealth of Independent States[o]	68[e]	3 900	1992
Former Czechoslovakia	26[e]	800	1992
Hungary	66[e]	2 400	1992
Poland	58[e]	3 800	1992
Romania	20[e]	6 900	1992
World	36 600	174 900	

Sources: UNCTAD, Programme on Transnational Corporations, based on UNCTC, 1992b; TCMD, 1993c; TCMD and ECE, 1992; and national official and secondary sources.

a Represents the number of affiliates in the country shown.
b For 1990.
c For 1986.
d For 1989.
e For 1991.
f For 1988.
g For 1987.
h Represents at total of 24 bank parents in 1991, and about 1,500 non-bank, non-oil and non-insurance concerns with direct investments above £20 million in 1981.
i Represents a total of 2,419 manufacturing affiliates in 1990 and 518 bank affiliates in 1992.
j Represents a total of 2,183 non-bank parent corporations in 1990 and 89 bank parent corporations in 1989 with at least one foreign affiliate whose assets, sales or net income exceeded $3 million, and 723 non-bank and bank parent corporations in 1989 whose affiliate(s) had assets, sales and net income under $3 million.
k Represents a total of 10,142 non-bank affiliates in 1990 and 467 bank affiliates in 1987 whose assets, sales or net income exceeded $1 million, and 4,336 bank and non-bank affiliates in 1987 with assets, sales and net income under $1 million. Each affiliate represents a fully consolidated United States business enterprise, which may consist of a number of individual companies. 10,142 non-bank affiliates represented 31,388 companies in 1990.
l Includes the largest host countries and countries for which data on parent corporations could be obtained.
m For 1982.
n Data for affiliates are estimated using number of joint-venture registrations and available information on the number of registrations, , that are operational.
o Relates to the whole of the economic territory of the former USSR.

only ultimate parent companies are counted, along with corporations with non-equity ties abroad, the world-wide total most probably exceeds 37,000.

Over 90 per cent of TNCs originate in developed countries. About 1 per cent of parent corporations are based in Central and Eastern Europe, and the remainder are headquartered in developing countries. That pattern reflects decades of capital accumulation, economic growth and technological change that have strengthened the competitive advantages of developed-country firms. The five major home countries—France, Germany, Japan, the United Kingdom and the United States—are home to over half the developed-country total. Among developing countries, parent TNCs are based mainly in the newly industrializing and larger economies. Judging from the data for Japan and the United States, nearly 60 per cent of all parent TNCs are in manufacturing, 37 per cent are in services, and 3 per cent in the primary sector.

(b) Foreign affiliates

The world-wide total of foreign affiliates of TNCs is estimated at over 170,000.[11] Developed countries are host to more than 46 per cent of them, with the five major home countries—France, the Federal Republic of Germany, Japan, the United Kingdom and the United States—hosting almost half of that share. Some 41 per cent of foreign affiliates are in developing host countries, and 13 per cent in Central and Eastern Europe.

Below the surface of these aggregates, the pattern is mixed and shifting. For example, the number of foreign affiliates of United States TNCs decreased from 33,650 to 27,086 between 1982 and 1989; employment in foreign affiliates also decreased slightly during the same period, even though both United States TNCs' assets abroad and total United States FDI increased. This suggests that United States TNCs bolstered their equity stakes in foreign affiliates, as well as the capital-intensity of their foreign operations (United States Department of Commerce, 1985; 1992a). For the Federal Republic of Germany, by contrast, the rapid increase in its FDI stock and in the foreign assets of German TNCs was accompanied by an increase in the number of foreign affiliates of German TNCs from 14,657 in 1984 to 19,352 in 1990, as well as a rise in employment in foreign affiliates of 34 per cent (Rutter, 1992; Deutsche Bundesbank, various issues; Statisches Bundesant, 1991). In other words, FDI from the Federal Republic of Germany was used partly to increase equity and control in existing foreign affiliates, as well as to expand production through establishing new affiliates.

By sector, services account for the bulk of foreign affiliates. Judging by the distribution of TNCs from the Federal Republic of Germany, Japan and the United States, services affiliates make up around 60 per cent of the total, compared with 36 per cent for manufacturing and only a small proportion in the primary sector (table I.7). As discussed in chapter III, this pattern reflects the increasing importance of services in the world economy and in FDI.

2. Concentration

Although the universe of TNCs is large, it is also highly concentrated. Judging from data for selected home countries, roughly 1 per cent of parent TNCs own about half of the stock of FDI of their home countries (table I.8). Even so, small and medium-size enterprises do play some role. Data for the United States and Japan in the 1980s show a mixed picture (table I.9); but other figures for Japan indicate that the share of small and medium-size enterprises in its total FDI outflows increased from 6 per cent in the mid-1970s to 15 per cent in the mid-1980s (Fujita, 1993). This may mean that larger TNCs from Japan, with more extensive overseas operations, invest more in existing affiliates, while small and medium-size enterprises tend to expand by setting up new affiliates.

3. The top 100 transnational corporations

Since TNC activity is so concentrated among relatively few companies, it is instructive to look at them in some detail. The largest 100 TNCs (excluding those in banking and finance), *ranked by the size of their foreign assets*, had about $3.2 trillion in global assets in 1990, of which an estimated $1.2 trillion was outside their own home countries (table I.10), and accounted for about one third of the world-wide outward stock of FDI, based on available firm-level FDI data on 53 of the 100 largest companies. These 53 firms from France, the Federal Republic of Germany, the Netherlands and the United States accounted for roughly $280 billion in world-wide FDI, about one third of the combined outward FDI stock of their home countries. Assuming that other home countries have a similar FDI concentration, then the largest 100 TNCs account for about one third of the world-wide FDI stock.

Even within this group of the 100 largest TNCs, there is a notable concentration of foreign activity. The five major home countries (France, Federal Republic of Germany, Japan, the United Kingdom and the United States) together account for almost three quarters of the TNCs in the top 100. United States corporations account for the largest number of firms (27), as well as one third of the foreign assets. This pre-eminence can be traced back to an early lead in FDI after the Second World War, as well as rapid technical progress and the large and growing home market in the United States, all of which helped United States corporations to compete abroad. The foreign assets of another third of the top 100's foreign assets are controlled by firms from France, Japan and the United Kingdom. The largest ten TNCs controlled over one quarter of the group's total assets, and a third of its foreign assets in 1990 (table I.11); the same is broadly true of foreign and total sales.

Table I.7. Distribution of outward affiliates of major investing countries, by sector
(Number and percentage)

Country	Year		*Sectors*			
			All	*Primary*	*Manufacturing*	*Services*
Germany, Federal Republic of[a]	1984	Number	14 657	558	4 936	9 163
		Percentage	100	4	34	63
	1990	Number	19 352	422	5 729	13 201
		Percentage	100	2	30	68
Japan[b]	1980	Number	3 567	194	1 587	1 786
		Percentage	100	5	44	50
	1990	Number	7 986	194	3 408	4 384
		Percentage	100	2	43	55
United States[c]	1982	Number	18 339	995	7 005	10 339
		Percentage	100	5	38	56
	1989	Number	18 899	785	7 552	10 562
		Percentage	100	4	40	56

Sources: UNCTAD, Programme on Transnational Corporations, based on Deutsche Bundesbank, 1992, Japan, Ministry of International Trade and Industry, 1983 and 1992a; United States Department of Commerce, 1985 and 1992a.

a Includes only affiliates whose balance sheet total exceeds DM 500,000.
b Includes only non-bank affiliates that responded to a questionnaire on FDI and that continued their foreign operations.
c Includes only affiliates whose assets, sales or income exceeded $3 million.

Table I.8. Concentration of ownership of foreign affiliate assets or foreign direct investment
(Number and percentage)

Country	*Year*	*Number of parent companies*	*Percentage of parent companies*	*Percentage of total foreign affiliate assets*	*Percentage of total foreign direct investment*
Austria	1990	41	6	65[a]	..
		95	14	84[a]	..
		312	46	98[a]	..
Brazil	1991	11	2	..	35[b]
		28	5	..	52[b]
Finland	1991	80	6	..	90
France	1990	10	0.5	..	25
		32	1.6	..	50
		223	10.8	..	90
Germany, Federal Republic of[c]	1990	10	0.1	32	35
		20	0.3	42	45
		50	0.7	69	58
	1985	27	0.5	..	50
	1976	31	0.9	..	50
Italy	1989	3[d]	..	51[e]	..
		5[d]	..	76[e]	..
		10[d]	..	84[e]	..
Netherlands[f]	1990	10	1.0	..	45
		100	9.5	..	77
New Zealand	1990-1991	12	6	..	97[b]
Spain	1991	..	8	..	92
Sweden	1991	18	0.5	51	..
		51	1.5	75	..
United States[g]	1990	22	1	45	..
		44	2	57	..
		109	5	75	..
		218	10	86	..
		437	20	94	..
		546	25	96	..
		1 091	50	99	..

Source: UNCTAD, Programme on Transnational Corporations, based on unpublished data from national and other official sources.

a Represents percentage of affiliate nominal capital.
b Represents the share of FDI flows, not stock.
c Concentration ratios for TNCs with overseas affiliates whose balance sheet total exceeded DM 500,000.
d Number of financial or holding company parent groups.
e Refers to sales.
f Concentration ratios for TNCs with participation of Fl.1 million or more.
g Concentration ratios for non-bank parents of non-bank affiliates whose assets, sales or income exceeded $3 million.

As for industrial distribution, 12 petroleum companies control over $250 billion in foreign assets, 21 per cent of the total of the top 100. The petroleum industry has always involved large resource-seeking foreign investors. On the other hand, automotive companies have expanded abroad in search of lower labour costs and to get around trade barriers. The petroleum, automotive, chemical and pharmaceutical industries together account for over half of the foreign assets of the largest 100 TNCs. However, this does not necessarily mean that they are the most "transnationalized" industries of all. The list does not include financial firms (especially banks and insurance companies), because of difficulties in comparing their assets and sales figures with those of other firms. In addition, there are many other industries where the largest companies are highly transnationalized; however, owing to the size of the industries and the firms in them, they are not large enough to be included in this list.

Table I.9. Small and medium-size transnational corporations and their affiliates as a proportion of all transnational corporations from Japan and the United States
(Percentage)

Item	*Japan*[a]		*United States*[b]	
	1980	*1990*	*1982*	*1990*
Share of small and medium-size TNCs in total for all TNCs in terms of:				
Number of parent firms[c]	31.0	21.2	23.5	28.3
Number of affiliates	..	..	5.2	7.1
Assets of affiliates	..	..	1.7	4.0
Number of new equity investments[d]	41.3	53.8[e]	..	..

Sources: UNCTAD, Programme on Transnational Corporations, based on unpublished data from the United States Department of Commerce; Japan Ministry of International Trade and Industry, 1983 and 1992a; Small and Medium Enterprise Agency.

a Data do not cover banking and insurance industries. The definition of small and medium-size enterprises adopted by the Small and Medium Enterprise Agency of Japan is as follows: in wholesale trade, enterprises with capital less than 30 million yen and employment less than 100; in retail trade and other services, enterprises with capital less than 100 million yen and employment less than 50; and in other industries, enterprises with capital less than 100 million yen and employment less than 300.

b United States small and medium-size TNCs are non-bank parents of non-bank affiliates with affiliate assets, sales or income greater than $3 million with fewer than 500 employees at the parent firm.

c Data on Japanese small and medium-size parent TNCs, obtained from the Ministry of International Trade and Industry, are defined only in terms of the capital criteria in footnote a.

d New equity investments refer to investments in initial capital acquisition (thus excluding additional investments by the same company in the same affiliate) and establishment of new subsidiaries. Loan investments, which are an important component of FDI, are also excluded.

e For 1989.

C. The policy framework

Several changes in the policy framework for TNCs during 1992 may well facilitate the future growth of FDI. At the multilateral level, the most significant changes were the adoption of the Guidelines on the Treatment of Foreign Direct Investment by the World Bank (World Bank Group, 1992b), whose underlying principle is to encourage the admission of foreign investors, and various developments in the United Nations, which aim to protect the environment.[12]

The Guidelines on the Treatment of Foreign Direct Investment were submitted to the Development Committee of the Boards of Governors of the World Bank and the International Monetary Fund on 21 September 1992, after consultations with interested Governments, other international organizations, business groups and international law associations. The Development Committee decided to bring them to the attention of the members of the World Bank as "useful parameters in the admission and treatment of private foreign investment in their

Table I.10. The largest 100 non-financial transnational corporations, ranked by foreign assets, 1990
(Billions of dollars and number of employees)

Rank	Corporation	Country	Industry[a]	Foreign assets	Total assets	Foreign sales	Total sales	Foreign employment	Total employment
1	Royal Dutch Shell	United Kingdom/ Netherlands	Petroleum refining	69.2[b]	106.4	47.1[b]	106.5	99 000	137 000
2	Ford	United States	Motor vehicles and parts	55.2	173.7	47.3	97.7	188 904	370 383
3	GM	United States	Motor vehicles and parts	52.6	180.2	37.3	122.0	251 130	767 200
4	Exxon	United States	Petroleum refining	51.6	87.7	90.5	115.8	65 000	104 000
5	IBM	United States	Computers	45.7	87.6	41.9	69.0	167 868	373 816
6	British Petroleum	United Kingdom	Petroleum refining	31.6	59.3	43.3	59.3	87 200	118 050
7	Asea Brown Boveri	Switzerland	Industrial and farm equipment	26.9	30.2	25.6[d]	26.7	200 177	215 154
8	Nestle	Switzerland	Food	..[c]	28.0	35.8	36.5	192 070	199 021
9	Philips Electronics	Netherlands	Electronics	23.3	30.6	28.8[d]	30.8	217 149	272 800
10	Mobil	United States	Petroleum refining	22.3	41.7	44.3	57.8	27 593	67 300
11	Unilever	United Kingdom/ Netherlands	Food	..[c]	24.7	16.7[b]	39.6	261 000	304 000
12	Matsushita Electric	Japan	Electronics	..[c]	62.0	21.0	46.8	67 000	210 848
13	Fiat	Italy	Motor vehicles and parts	19.5	66.3	20.7[d]	47.5	66 712	303 238
14	Siemens	Germany	Electronics	..[c]	43.1	14.7[d]	39.2	143 000	373 000
15	Sony	Japan	Electronics	..[c]	32.6	12.7	20.9	62 100	112 900
16	Volkswagen	Germany	Motor vehicles and parts	..[c]	42.0	25.5[d]	42.1	95 934	268 744
17	Elf Aquitaine	France	Petroleum refining	17.0	42.6	11.4[d]	32.4	33 957	90 000
18	Mitsubishi	Japan	Trading	16.7	73.8	45.5	129.3	..	32 417
19	GE	United States	Electronics	16.5	153.9	8.3	57.7	62 580	298 000
20	Du Pont	United States	Chemicals	16.0	38.9	17.5	37.8	36 400	124 900
21	Alcatel Alsthom	France	Electronics	15.3	38.2	13.0	26.6	112 966	205 500
22	Mitsui	Japan	Trading	15.0	60.8	48.1	136.2	..	9 094
23	News Corporation	Australia	Publishing and printing	14.6	20.7	4.6	5.7	..	38 432
24	Bayer	Germany	Chemicals	14.2	25.4	20.3	25.9	80 000	171 000
25	B.A.T. Industries	United Kingdom	Tobacco	..[c]	48.1	16.5[d]	22.9	..	217 373
26	FerruzziMontedison	Italy	Food	13.4	30.8	8.0	14.0	22 300	44 949
27	Rhone-Poulenc	France	Chemicals	13.0	21.3	11.1	14.4	50 525	91 571
28	BASF	Germany	Chemicals	..[c]	24.3	19.1[d]	29.0	46 059	134 647
29	Toyota	Japan	Motor vehicles and parts	12.8	55.1	24.8	60.1	11 326	96 849
30	Philip Morris	United States	Food	12.5	46.6	10.5	51.2	66 000	168 000
31	Hoechst	Germany	Chemicals	..[c]	22.9	20.7[d]	27.8	82 169	172 890
32	Roche Holding	Switzerland	Pharmaceuticals	..[c]	17.8	6.7[d]	7.0	41 802	52 685
33	Ciba-Geigy	Switzerland	Chemicals	..[c]	20.5	7.9[bd]	14.3	69 702	94 141
34	Hanson	United Kingdom	Building materials	11.1	27.6	6.3	13.4	52 000	80 000
35	Michelin	France	Rubber and plastics	..[c]	14.9	9.1	11.5	111 533	140 829
36	Dow Chemical	United States	Chemicals	10.9	24.0	10.3	19.8	28 612	62 080
37	Total	France	Petroleum refining	..[c]	20.6	17.1	23.6	23 824	46 024
38	Amoco	United States	Petroleum refining	10.6	32.2	8.5	28.0	10 560	54 524
39	ICI	United Kingdom	Chemicals	10.5	20.8	17.7	23.0	78 400	132 100
40	C. Itoh	Japan	Trading	10.5	58.4	48.3	151.1	3 620	9 643
41	Grand Metropolitan	United Kingdom	Food	10.4	17.7	9.7	16.0	..	138 149
42	Saint-Gobain	France	Building materials	9.9	17.6	7.8	12.7	69 651	104 987
43	Volvo	Sweden	Motor vehicles and parts	9.7	18.1	12.2[d]	14.1	20 346	68 800
44	Petrofina	Belgium	Petroleum refining	..[c]	12.3	5.7	17.4	..	23 800
45	Generale Des Eaux	France	Construction	9.0[g]	27.7	5.5[d]	21.5	55 983	173 000
46	Nissan Motor	Japan	Motor vehicles and parts	..[c]	36.4	16.8	35.7	30 050	129 546
47	RTZ	United Kingdom	Mining and crude-oil production	8.4	9.3	7.3	9.3	58 153	73 612
48	Chevron	United States	Petroleum refining	8.4	35.1	9.8	38.6	10 953	54 208
49	Solvay	Belgium	Chemicals	8.1[g]	8.9	7.2	7.7	36 578	45 671
50	Xerox	United States	Scientific and photographic equipment	8.0	31.5	7.5	18.4	..	110 000
51	Texaco	United States	Petroleum refining	7.8	26.0	18.0	40.9	..	39 199
52	Electrolux	Sweden	Electronics	7.8	11.7	11.9[d]	13.9	123 337	150 892
53	ITT	United States	Diversified services	7.5	49.0	6.5	20.6	..	114 000
54	Daimler-Benz	Germany	Transport and communication	..[c]	45.1	30.2[d]	52.9	73 381	376 785
55	Renault	France	Motor vehicles and parts	7.4	23.5	12.2	30.2	42 492	157 378
56	Thomson	France	Electronics	7.4	20.5	9.8[d]	13.9	55 225	105 460
57	Thomson Corporation	Canada	Publishing and printing	7.4	7.9	4.8	5.3	38 700	44 800

/.....

(Table I.10, cont'd.)

Rank	Corporation	Country	Industry[a]	Foreign assets	Total assets	Foreign sales	Total sales	Foreign employment	Total employment
58	Stora	Sweden	Forestry products	7.3	15.0	8.9[d]	11.1	47 544	69 691
59	Pechiney	France	Metals	7.3	14.2	8.6	14.2	39 458	70 965
60	olderbank	Switzerland	Building materials	6.9[g]	7.4	3.4[d]	3.8	27 754	29 557
61	Alcan Aluminium	Canada	Metal products	6.8	10.6	7.6	8.9	41 040	55 500
62	Sandoz	Switzerland	Pharmaceuticals	6.7	10.1	8.7[d]	9.0	42 449	52 400
63	Honda	Japan	Motor vehicles and parts	6.7	18.0	16.1	26.9	23 760[e]	79 200
64	Toshiba	Japan	Electronics	..[c]	39.2	10.3	33.3	27 000	162 000
65	ENI	Italy	Petroleum refining	6.5	60.3	15.6	41.8	22 131	130 745
66	Procter & Gamble	United States	Soaps and cosmetics	6.5	18.5	9.6	24.1	45 278	92 625
67	Eastman Kodak	United States	Scientific and photographic equipment	6.4	24.1	8.2	18.9	54 100	134 450
68	Marubeni	Japan	Trading	6.3	54.9	38.1	131.0	3 500	9 905
69	Glaxo Holdings	United Kingdom	Pharmaceuticals	6.1	8.6	5.1[d]	5.7	20 934	33 225
70	Fletcher Challenge	New Zealand	Forestry products	5.9	10.4	4.9	7.3	..	40 000
71	Nissho Iwai	Japan	Trading	..[c]	38.8	27.5	94.4	2 073	7 350
72	Seagram	Canada	Beverages	5.7	10.2	4.6[d]	4.8	9 328	17 600
73	Chrysler	United States	Motor vehicles and parts	5.7	46.4	8.5	30.6	30 820	109 943
74	Tenneco	United States	Industrial and farm equipment	5.6	19.0	4.6	14.5	..	92 000
75	Usinor-Sacilor	France	Metals	..[c]	20.8	7.3	17.6	31 025	97 300
76	Hewlett-Packard	United States	Computers	5.3	11.4	7.2	13.2	35 000[f]	92 200
77	Akzo	Netherlands	Chemicals	5.3	8.1	6.3	9.5	47 700	69 800
78	Smithkline Beecham	United Kingdom	Pharmaceuticals	5.2	7.5	7.4	8.5	46 413	57 300
79	Bridgestone	Japan	Rubber and plastics	..[c]	13.0	7.6	13.2	56 000	87 234
80	Alcoa	United States	Metals	5.1	11.4	4.3	10.7	27 391	63 700
81	Digital Equipment	United States	Computers	5.1	11.7	7.1	12.9	..	124 000
82	Olivetti	Italy	Computers	5.0	12.4	4.8[d]	7.5	26 690	53 679
83	SKF	Sweden	Metal products	5.0	5.5	4.5[d]	4.7	48 075	53 995
84	L'air Liquide	France	Chemicals	4.9	7.1	2.9	5.4	17 000	28 000
85	Atlantic Richfield	United States	Petroleum refining	4.9	23.9	3.9	18.8	..	27 300
86	GTE	United States	Telecommunications	4.9	33.8	3.0	18.4	35 000	177 000
87	Mannesmann	Germany	Industrial and farm equipment	4.9	15.3	9.0	14.8	34 021	123 997
88	Robert Bosch	Germany	Motor vehicles and parts	..[c]	15.8	10.0[bd]	19.7	62 087	179 636
89	SCA	Sweden	Paper and packaging	4.8	8.6	4.2[d]	5.3	19 590	30 139
90	Peugeot	France	Motor vehicles and parts	4.8	22.6	15.8	29.5	31 820	159 100
91	3M	United States	Scientific and photographic equipment	4.7	11.1	6.2[d]	13.0	39 000	89 601
92	McDonald's	United States	Restaurants	4.6	10.7	6.5	18.8	..	177 000
93	Cable and Wireless	United Kingdom	Telecommunications	4.6	7.2	3.3	3.8	28 261	37 681
94	United Technologies	United States	Aerospace	4.4	15.9	7.8	21.4	84 500	192 600
95	Lonrho	United Kingdom	Trading	..[c]	7.0	5.6	9.3	127 369	142 159
96	Johnson & Johnson	United States	Pharmaceuticals	4.4	9.5	5.8	11.2	44 369[e]	84 902
97	BHP	Australia	Metals	4.3	16.2	3.2	10.8	..	52 000
98	Norsk Hydro	Norway	Chemicals	4.3	12.0	5.9	9.8	16 745	33 042
99	Veba	Germany	Trading	..[c]	30.8	9.5	32.9	14 696	106 877
100	LVMH Moet-Hennessy	France	Beverages	4.2	8.8	2.6	3.7	..	14 297

Source: UNCTAD, Programme on Transnational Corporations, based on company annual financial statements, Worldscope company accounts database, unpublished sources from companies, The Industrial Institute for Economic and Social Research (IUI, Stockholm, Sweden), and Stopford, 1992. The Worldscope database uses standardized data definitions to adjust for differences in accounting terminology. Data for United States companies with fiscal year-end up to 10 February 1991, as well as for non-United States companies with fiscal year-end until 15 January 1991, are classified as 1990 data.

a Industry classification of companies follows that in the Fortune Global 500 list in *Fortune*, 29 July 1991, and the Fortune Global Service 500 list in *Fortune*, 26 August 1991, except for Akzo, Daimler-Benz, GTE, ITT McDonald's and SCA corporations. In the Fortune classification, companies are included in the industry or service that represents the greatest volume of their sales; industry groups are based on categories established by the United States Office of Management and Budget. Several companies, however, are highly diversified. These companies include 3M, Ferruzzi Montedison, GE, Grand Metropolitan, Hanson, ITT, Sandoz, Tenneco, United Technologies and Veba.

b Excludes other European countries.

c Data for foreign assets not available; ranking is according to foreign assets estimated by the Transnational Corporations and Management Division on the basis of the ratio of foreign to total employment, foreign to total fixed assets or other similar ratios.

d Includes export sales which are not separately reported.

e For 1992; previous data not available.

f For 1993; previous data not available.

g Company's own estimate.

Table I.11. Transnationalization and concentration ratios for the largest 100 transnational corporations, by foreign assets and foreign sales, 1990
(Percentage and billions of dollars)

Item	Share in top 100 (Percentage)		Share in top 100 (Percentage)		Share of foreign in total assets	Share of foreign in total sales
	Total assets	*Foreign assets*[a]	*Total sales*	*Foreign sales*	*(Percentage)*	
Top 10	25.8	33.5	23.2	29.4	49.1	61.2
Top 25	50.0	54.4	46.0	49.2	41.1	51.7
Top 50	70.9	76.3	68.7	70.9	41.0	49.9
Top 100 Percentage	100.0	100.0	100.0	100.0	37.8	48.4
Value (Billion dollars)	3 198.6	1 208.5	3 107.1	1 502.4		

Source: Table I.10.

a Estimates for foreign assets were used where the data were missing.

Table I.12. Bilateral investment treaties concluded by developed countries, January 1993

Country	Total number concluded until mid-1991	Treaties concluded between mid-1991 and end-1992					Total number as of 1 January 1993
		Africa	*Asia*	*Latin America and the Caribbean*	*West Asia*	*Central and Eastern Europe*	
Australia	2		2			3	7
Austria	10	2	1	1			14
Belgium-Luxembourg	29	1	1	3			34
Canada	3			2		1	6
Denmark	13	1	1	1		4	20
Finland	9					10	19
France	44		2	1	1	4	52
Germany, Federal Republic of	73		1	3		4	81
Greece	3				1	2	6
Iceland							
Ireland							
Italy	22		1			2	25
Japan	3						3
Netherlands	32	2		4		2	40
New Zealand	1						1
Norway	9					3	12
Portugal	3		1			1	5
Spain	5		1	3			9
Sweden	16		1	1		3	21
Switzerland	51			1		3	56
Turkey	12		1	1		8	22
United Kingdom	49				1		50
United States	13		1	1		7	22
Total	402	6	15	22	3	57	506[a]

Source: UNCTAD, Programme on Transnational Corporations, based on information provided by Governments.

a Including a bilateral investment protection treaty between Japan and Turkey.

territories" (World Bank Group, 1992b, p. 36). They are a set of recommendations for implementation on a voluntary basis, which can be applied to all countries (box I.2). To the extent that they are adopted by individual countries, the World Bank Guidelines may help to develop an international standard for FDI. However, they do not explicitly deal with standards of corporate conduct,[13] because it was thought that the formulation of such

Box I.2. The World Bank Guidelines on the Treatment of Foreign Direct Investment

The Guidelines provide a voluntary framework for the treatment of FDI. They cover the admission of FDI, general standards of treatment, transfer of capital and revenues, expropriation and compensation and settlement of disputes between host countries and investors. Overall, they are a synthesis of the existing instruments and the "best practices" that tend to stimulate FDI.

The Guidelines contain prescriptions to governments of host countries on how they should treat private foreign investors; they do not deal with the obligations of foreign investors, except in very general ways. Guideline 1 says that the framework applies to existing and new investments "which are established and operating in good faith and in full conformity with the laws and regulations of the host State".

Guideline II states that States are encouraged to admit foreign investors, while recognizing the possibility of some exceptions and emphasizing the importance of providing information to investors about investment conditions. States are also advised to avoid complicated procedural regulations or conditions on admission. Yet their right to regulate is preserved, especially when this is required by public order.

Guideline III endorses the general standards of fair and equitable treatment, and national and non-discriminatory treatment. These standards should be applied, in principle, to all activities of a foreign investor after admission or establishment. They apply to all States without prejudice to the provisions of applicable international instruments and to firmly established rules of customary international law. In addition, this Guideline elaborates on several specific aspects of FDI treatment that are particularly important: timely issuance of authorizations; flexibility in relation to employment policy; facilitation of transfer of funds and repatriation of the investment; prevention and control of corrupt practices and promotion of accountability and transparency in FDI operations; "best practices" in relation to fiscal incentives; and "best practices" by home countries on the facilitation and promotion of FDI to developing countries.

The provisions on expropriation (Guideline IV) are fairly detailed. Expropriation includes indirect or "creeping" expropriation. In the light of practice, this Guideline recognizes the right of a State to expropriate, but only if this is done in accordance with applicable legal procedures, in the pursuance in good faith of a public purpose, without discrimination on the basis of nationality and against the payment of appropriate compensation. The Guideline recommends the use of detailed and practical compensation formulae, adaptable to each case, and drawing mainly from international arbitration awards. Compensation should generally be deemed prompt, adequate and effective; the meaning of each of these terms is described in considerable detail. However, investors may be entitled to lesser (or no) compensation if they breach the law of the host State; and the Guideline also recognizes that, in the case of comprehensive non-discriminatory nationalizations effected in the process of large scale social reforms under exceptional circumstances of revolution, war and similar exigencies, compensation may be determined by inter-State negotiations or by international arbitration.

Guideline V deals with the settlement of disputes between the host States and foreign investors. It provides that these disputes be settled through negotiations between them and, failing this, through national courts or through other agreed mechanisms including conciliation and binding international arbitration. It stresses the independence of the arbitration procedure, which means basically that the majority of the arbitrators should not be appointed by one party. The Guidelines encourage the use of ICSID mechanisms in case of agreement on independent arbitration.

Source: World Bank Group, 1992b.

Box I.3. Minimum standards for the supervision of banks

Transnational banks are not just an important source of capital for FDI, they are also active participants in investment projects around the world. In 1975, the Governors of the Central Banks of the Group of Ten industrialized countries established the Basel Committee on Banking Regulations and Supervisory Practices (now the Basel Committee on Banking Supervision) to strengthen collaboration among national authorities in their prudential supervision of international banking. During that year, the Committee obtained the agreement of the Governors to a paper setting out principles for the supervision of foreign establishments of banks; those arrangements, which were revised in 1983, are now better known as the Basel Concordat. In 1988, the Committee concluded an agreement to establish a common measurement system and a minimum standard for capital adequacy of international banks; this became known as the Basel Capital Accord. The Accord was revised in November 1991 to ensure greater consistency in respect of the inclusion of general provisions/general loan-loss reserves in capital. In 1989, the Committee released the Statement of Principles on Money-Laundering (to which the World Bank Guidelines made reference). More recently, it has been drawing up regulatory proposals dealing with netting, market risks and interest-rate risks.

In July 1992, in the aftermath of the BCCI affair, the Committee issued a set of minimum standards for international cooperation in the supervision of banks, designed to reinforce the Basel Concordat. Those standards can be summarized as follows:

- All international banking groups and international banks should be supervised by a home-country authority that capably performs consolidated supervision. In home countries where supervisory responsibility is shared among two or more authorities, the word "authority" is used to include all relevant authorities in any one country;
- The creation of across-border banking establishments should receive the prior consent of both the host-country supervisory authority as well as the bank's (and, if different, the banking group's) home-country supervisory authority;
- Supervisory authorities should possess the right to gather information from the cross-border banking establishments of the banks or banking groups for which they are the home-country supervisor;
- If a host-country authority determines that any one of the foregoing minimum standards is not met to its satisfaction, that authority could impose restrictive measures necessary to satisfy its prudential concerns consistent with the minimum standards, including the prohibition of the creation of banking establishments.

If these minimum standards are not met with respect to a particular bank or banking group, and the relevant home-country authorities are unwilling or unable to initiate the effort to take measures to meet the standards, the host-country authority should prevent the creation in its jurisdiction of any cross-border establishments by that bank or banking group. However, in its sole discretion, a host-country authority may choose to permit the creation of establishments by such a bank or banking group, subject to whatever prudential restrictions on the scope and nature of the establishment's operations which the host-country authority deems necessary and appropriate to cover its prudential concerns, provided that the host-country authority itself also accepts the responsibility to perform adequate supervision of the bank's or banking group's local establishments on a "stand-alone" consolidated basis.

Source: Basel Committee on Banking Supervision, 1992.

standards was being undertaken by other bodies such as the United Nations Commission on Transnational Corporations.

Further progress on international investment cooperation was made at the United Nations Conference on Environment and Development (UNCED), held in Rio de Janeiro in June 1992. The conference's main document—*Agenda for the 21st Century* (UNCED, 1992)—contains numerous recommendations with implica-

Figure I.2. Network of tax conventions between OECD countries, 1 January 1992

	Finland	Norway	France	Germany	United Kingdom	Belgium	Denmark	Sweden	Italy	Austria	Netherlands	United States	Switzerland	Canada	Japan	Ireland	Australia	Spain	New Zealand	Luxembourg	Greece	Portugal	Turkey	Iceland
Finland		■	■	■	■	■	■	■	■	■	■	■	□	□	■	■	■	■	■	■	■	■	■	■
Norway	■		■	□	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
France	■	■		■	■	■	■	□	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	◆
Germany	□	□	■		■	■	■	■	◆	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
United Kingdom	■	■	■	■		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Belgium	■	■	■	■	■		■	◆	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	◆
Denmark	■	■	■	■	■	■		■	■	■	■	□	■	■	■	■	■	■	■	■	◆	■	◆	■
Sweden	■	■	□	■	■	◆	■		■	■	□	■	■	■	■	■	■	■	■	■	■	◆	■	■
Italy	■	■	■	◆	■	■	■	■		■	□	■	■	■	■	■	◆	■	■	■	■	■	◆	◆
Austria	■	■	■	■	■	■	■	■	■		■	■	■	■	■	■	■	■	■	■	■	■	■	■
Netherlands	■	■	■	■	■	■	■	□	□	■		■	■	■	■	■	■	■	■	■	■	◆	■	◆
United States	■	■	■	■	■	■	■	□	■	■	◆		■	■	■	■	■	■	■	■	■	■	■	■
Switzerland	□	■	■	■	■	■	■	■	■	■	■	■		■	■	■	■	■	■	■	■	■	◆	■
Canada	□	■	■	■	■	■	■	■	■	■	■	■	■		■	■	■	■	■	■	◆	◆	◆	◆
Japan	■	■	■	■	■	■	■	■	■	■	■	■	■	■		■	■	■	■	■	◆	◆	◆	◆
Ireland	■	■	■	■	■	■	■	■	◆	■	■	■	■	■	■		■	◆	■	■	◆	◆	◆	◆
Australia	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■		◆	■	◆	◆	◆	◆	◆
Spain	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	◆	◆		◆	■	◆	■	◆	◆
New Zealand	■	■	■	■	■	■	■	■	■	■	◆	■	■	■	■	■	■	◆		◆	◆	◆	◆	◆
Luxembourg	■	■	■	■	■	■	■	■	■	■	■	■	◆	■	◆	■	◆	■	◆		◆	◆	◆	◆
Greece	■	■	■	■	■	■	◆	■	■	■	■	■	■	◆	◆	◆	◆	◆	◆	◆		◆	◆	◆
Portugal	■	■	■	■	■	■	■	◆	■	■	◆	◆	■	◆	◆	◆	◆	■	◆	◆	◆		◆	◆
Turkey	■	■	■	■	■	■	◆	■	◆	■	■	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆		◆
Iceland	■	■	◆	■	■	◆	■	■	◆	◆	◆	■	■	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	
Treaties in force	**23**	**23**	**22**	**22**	**23**	**21**	**21**	**21**	**19**	**21**	**21**	**21**	**21**	**19**	**18**	**17**	**17**	**17**	**16**	**15**	**12**	**11**	**9**	**8**

■ **Conventions in force** □ **New convention signed** (old convention still in force) ◆ **Convention signed** (no previous convention

Source: OECD, 1992b, p. A-33.

Table I.13. Main changes in investment regimes in 1992

	Type of measure											
	Operational conditions		*Foreign ownership/ sectoral restrictions*		*Approval procedures*		*Incentives*		*Guarantees*		*Controls*	
Region/Country	*More liberal*	*Less liberal*	*More liberal*	*Less liberal*	*More liberal*	*Less liberal*	*More liberal*	*Less liberal*	*More liberal*	*Less liberal*	*More liberal*	*Less liberal*
Africa												
Burundi							x					
Egypt	x		x		x		x				x	
Ethiopia			x		x		x		x			
Malawi	x		x		x		x		x			
Morocco	x						x					
Tunisia							x					
Asia												
China			x				x					
Democratic People's Republic of Korea	x		x		x		x					
India	x		x		x				x		x	
Indonesia			x									
Malaysia			x				x					
Republic of Korea			x		x		x				x	
Viet Nam	x		x				x		x			
Central and Eastern Europe												
Albania			x		x				x			
Azerbaijan	x		x		x				x			
Belarus							x		x			
Bulgaria			x		x							
Kazakhstan									x			
Lithuania	x				x		x					
Republic of Moldova			x								x	
Romania							x					
Russian Federation	x		x		x							
Tajikistan	x		x		x		x					
Turkmenistan							x					
Ukraine	x		x		x		x		x		x	
Uzbekistan			x				x				x	
Latin America and the Caribbean												
Argentina							x					
Cuba			x									
Guatemala							x				x	
Honduras			x		x				x		x	
Mexico			x		x		x		x			
Nicaragua									x		x	
Paraguay									x		x	
Peru			x				x					
Sao Tome and Principe	x				x		x					
Venezuela			x		x		x		x		x	

/.....

(Table I.13, cont'd.)

Region/Country	*Type of measure*											
	Operational conditions		*Foreign ownership/ sectoral restrictions*		*Approval procedures*		*Incentives*		*Guarantees*		*Controls*	
	More liberal	*Less liberal*	*More liberal*	*Less liberal*	*More liberal*	*Less liberal*	*More liberal*	*Less liberal*	*More liberal*	*Less liberal*	*More liberal*	*Less liberal*
West Asia												
Iran, Islamic Republic of			x						x		x	
United Arab Emirates			x		x							
Developed countries												
Australia					x							
Canada			x									
Finland			x		x							
France					x							
Japan			x									
Sweden			x		x							

Source: UNCTAD, Programme on Transnational Corporations, drawing from various national sources.

tions for TNCs.[14] In a chapter on "Business and industry", *Agenda 21* calls on corporations to establish world-wide policies on sustainable development; to help the transfer of clean technology to developing countries; to adopt environmental standards at least as stringent as those they employ in their home countries; and to report annually on their environmental records. The chapters on environmentally sound management of toxic chemicals and environmentally sound management of hazardous wastes recommend that foreign affiliates be sensitive to local conditions; apply a "responsible care" approach to chemicals, based on the full life-cycle of products; be open in describing their management of hazardous waste; and provide information to developing countries that are short of technical expertise. Lastly, *Agenda 21*, in a chapter on integrating environment and development in decision-making, favours greater use of market mechanisms, corporate self-regulation and voluntary initiatives (such as industry association guidelines) to achieve sustainable development. These recommendations, together with some legally binding conventions on specific aspects of environmental protection, provide norms to which various FDI instruments make reference. Environmental considerations are now an integral part of the international framework on FDI.

Less progress has been made on another part of the global framework, the United Nations Code of Conduct on Transnational Corporations. After informal consultations held from 21 to 23 July 1992, delegations concluded that, at present, no consensus was possible on the draft Code. They favoured a fresh approach, which could include the preparation of guidelines and/or any other international instruments on FDI.[15] For the time being, this brings to a formal end the most comprehensive effort to create a global and balanced framework for FDI. However, it is generally recognized that the Code negotiations, which lasted for more than 15 years and involved all countries, did much to clarify the principles and standards for FDI.

The cessation of the Code negotiations does not, however, mean that the need to elaborate international standards for FDI has diminished (Kline, 1993; Fatouros, 1993; Rubin and Wallace, 1993). That, certainly, is the implication of the adoption of the World Bank Guidelines and of the progress made in the Uruguay Round. In the OECD, too, the Council, in June 1992, invited the Secretary-General to prepare a study to explore the advantage and feasibility of a "Wider Investment Instrument" (OECD, 1992a), an instrument that combines, among other things, the liberalization codes, the OECD Guidelines for TNCs and the decisions on national treatment and incentives and disincentives. The two committees currently dealing with investment issues (the Committee on International Investment and Multinational Enterprises and the Committee on Capital Movements and Invisible Transactions[16]) suggested that the feasibility study address the purpose of a wider instrument, including such issues as the utility of such an agreement; how to correct deficiencies and adjust the national treatment commitments to the same level as that provided by the (binding) liberalization codes; achieving higher levels of liberalization; providing for investment protection; ensuring that there are no gaps and conflicts with other investment instruments; extending the geographical scope to non-member countries; providing for dispute settlement between States and investors; and binding the subnational units of federal countries.

There seems to be a perception among OECD countries that a wider investment instrument would improve the existing instruments and lead to a greater liberalization of FDI flows than that which currently exists among OECD countries. Although it would be negotiated among OECD members, they are likely to take account of the possible eventual participation of non-members and the institutional implications this would have. Hence, although the discussions about a wider instrument are still at an early stage, they may evolve into the first comprehensive instrument on TNCs, albeit in a less-than-global form.

At a regional level, too, much is going on. The *World Investment Report 1992* (TCMD, 1992a) discussed the creation of the European Economic Area (EEA), which involves extending certain aspects of European Community principles and undertakings to the members of the European Free Trade Association (EFTA). This will create a single home base for TNCs headquartered in the EEA. Furthermore, the EC has negotiated or is negotiating association agreements with individual countries in Central Europe as well as with groups of developing countries (for example, North Africa, the Gulf Cooperation Council, ASEAN and the Andean Pact).[17] Most of those agreements include provisions on capital movements, the establishment of firms and the protection and promotion of FDI. Elsewhere, one of the principal regional developments in 1992 was the signing, on 12 August, of the North American Free Trade Agreement (NAFTA) between Canada, Mexico and the United States (see chapter II).

The regional arrangements continue to be supplemented by bilateral treaties for the promotion and protection of FDI and for the avoidance of double taxation. The number of bilateral investment treaties concluded by OECD countries reached 506 at the end of 1992 (table I.12 and annex table 5), with a marked growth in the participation of Latin American countries and the newly independent States in Central and Eastern Europe. In 1992 alone, OECD member countries concluded at least 72 bilateral investment treaties. The number of double taxation treaties now exceeds 1,200, and the network among OECD countries is almost complete (figure I.2). Those treaties are of great importance for TNCs and for Governments, as they influence, among other things, the allocation of profits between host and home countries. To shift the balance towards countries where profits are generated, recent bilateral treaties and the 1992 revision of the 1977 OECD Model Treaty have expanded the definition of permanent establishment; they also seek to limit the extension of tax-treaty benefits to residents of third countries.

Almost all these instruments and discussions are based on a common purpose: to reduce national barriers and protect FDI. They deal mainly with conditions of entry and establishment, operational conditions, transfer of payments and repatriation of capital and the settlement of disputes. But instruments granting an unconditional right to establishment are still rare. Instead, an increasingly common approach is to extend the standards of national and most-favoured-nation treatment and non-discrimination (qualified sometimes by reciprocity requirements) to cover the establishment of the investment, as well as its operational conditions. This is accompanied by an attempt to limit or eliminate performance requirements that may be placed on TNCs.

As in the past, international agreements also contain derogations or exceptions to the general principles by adding a list of exempted activities and industries. And the new instruments continue to provide guarantees of protection for TNCs, both in general terms and in specific areas (notably the transfer of funds and the repatriation of the investment, expropriation, state contracts and the settlement of investment disputes).

Where agreements try to set standards and principles for the activities of TNCs, they tend to concentrate on specific issues like environmental protection and banking and financial markets supervision (box I.3). In those and other areas, the emphasis is on developing preventive measures, mostly by way of requirements on information-disclosure and auditing. Attempts to lay down standards for the full range of TNC activities have been less successful. Apart from a general obligation to act in good faith, the overall regulation of TNC activities in host countries tends to be seen as a matter better left to those countries. In this respect, national FDI regimes have continued to be liberalized during 1992 (table I.13 and annex table 6). In fact, all the 79 new legislative measures adopted in 43 countries were in the direction of liberalization. A number of Governments also took measures to increase the protection of intellectual property and to allow TNCs to participate in the privatization of state industries.

Notes

1 In SDR terms, the rate of annual growth of world-wide outflows, gross domestic product, gross domestic investment, exports of goods and non-factor services, sales, royalty-and-fees receipts during the period 1986-1990 were 21 per cent, 6 per cent, 7 per cent, 12 per cent, 12 per cent and 16 per cent, respectively. Hence, in SDR terms, world-wide outflows grew almost twice as fast as world-wide exports, three times as fast as world-wide gross domestic product and gross domestic investment, and considerably faster than royalties and fees receipts. World-wide sales of TNCs grew twice faster than world-wide gross domestic product and gross domestic investment, and as fast as world-wide exports.

2 A significant proportion of FDI by developing countries may not represent genuine investment—that is, transfer of capital, skills, know-how and control. For example, more than one-third of FDI by developing countries originates from offshore investment sites and

tax havens such as Bermuda, the Cayman Islands, Liberia, the Netherlands Antilles and Panama. The exclusion of these countries reduces the outward investment stock of developing countries to $80 billion in the late 1980s.

3 A survey undertaken by Japan's Export-Import Bank of 115 major Japanese companies indicated that, although they would direct the biggest single share (26 per cent) of their foreign investment to the European Community between early 1992 and March 1994, the member countries of the Association of South-East Asian Nations come close behind. Asia plus Oceania will absorb half of the total. See Anthony Rowley, "Japan looks closer to home", *Far Eastern Economic Review*, 16 January 1992, p. 40, and David Dodwell, "Trade surplus likely to fuel Japanese investment in the Pacific", *Financial Times*, 3 December 1991.

4 The rate of return in the business sector in the OECD declined to 20.3 per cent in 1990 and 1991 from 20.7 per cent in 1988 and 20.6 per cent in 1989. See table on rates of return on capital in the business sector, *OECD Economic Outlook*, appearing in various issues.

5 It may be presumed that, in the developed countries, profits earned from FDI activities in one country or area may be used to finance FDI in another country or area. This may also hold true of the other components of FDI, equity capital and short- and long-term capital.

6 Profit rates are defined here as the share of net income to total income.

7 Data relate to 14 countries for which information was available for both 1969 and 1990. Those are Austria, Belgium, Denmark, France, Federal Republic of Germany, Italy, Japan, Luxembourg, Norway, Portugal, Spain, Sweden, United Kingdom and United States. Data for 1990 are from table I.6.

8 Although the data in table I.6 provide a good picture of the number of companies involved in FDI activities and their spread, data limitations should be noted. Several countries do not report the number of TNCs or foreign affiliates, while others report only those with sales or assets above a minimum size, or exclude firms in certain industries. This would suggest that the number of parents and affiliates is an underestimate.

9 According to the MERIT-CATI Data Bank in the Netherlands, the total number of cooperative agreements is estimated at about 10,000, involving some 3,500 different parent companies during the period 1980 to 1989.

10 It could be argued that a problem of double-counting would arise only if majority-owned affiliates (subsidiaries) of foreign enterprises were counted as parents originating in the host country. Minority-owned affiliates could be considered as legitimate parent TNCs because the influence of foreign firms is not necessarily dominant, and because their accounts are not always consolidated with those of their ultimate parents.

11 This estimate is based on the number of inward foreign affiliates. The total of inward affiliates is a better estimate of the number of affiliates than the sum of outward affiliates, which tends to be an overestimate. For example, if a United States corporation holds a 30 per cent stake in a French company, the latter is counted as an outward foreign affiliate of the United States. If the French company holds a 40 per cent stake in a Brazilian company, then the latter is a direct affiliate of the French parent, as well as an indirect affiliate of the United States parent. In this case, the United States and France would report a total of three foreign affiliates of their own transnational corporations; however, France and Brazil together would report two inward affiliates, which is the actual number.

12 Negotiations of international agreements on trade (including FDI) in services, trade-related investment measures and trade-related intellectual property continued in the context of the Uruguay Round without, however, coming to a conclusion. See TCMD (1992a).

13 In the World Bank Group (1992b, p. 9), the World Bank noted: "This report covers general principles suggested to guide governmental behavior toward foreign investors; it does not include rules of good conduct on the part of the foreign investors. A set of rules for the latter purpose was reflected in negotiated provisions of the UNCTC draft Code of Conduct, which is now being reviewed 'in the light of the changed international economic environment'."

14 Although *Agenda 21* contains no chapter addressing TNCs specifically, it contains numerous more or less explicit references to these firms and their activities, including, for example, "foreign direct investment", "multinational enterprises" and "business and industry, including transnational corporations".

15 "Report by the President of the forty-sixth session of the General Assembly" (United Nations document, A/47/446, of 15 September 1992), annex.

16 Currently, the role of these Committees is to ensure the progressive liberalization of Government policies on FDI under the OECD Liberalisation Codes and the National Treatment Instrument, and to monitor various arrangements for cooperation on a wide range of investment issues under the OECD Declaration and Decisions on International Investment and Multinational Enterprises (of which the National Treatment Instrument is also part). (The instruments are reprinted in UNCTAD, 1993b.) Among the main tools to carry out the Committees' mandate are the examinations of member countries' reservations/exceptions to these instruments, which often lead to the formulation of Council recommendations inviting the member country to act in a particular way. In 1993, for the first time, country examinations will be published to bring transparency on member countries' position under the Codes, and to provide an analysis of member countries' policies on investment issues.

17 See, for example, the Association Agreement with Poland, concluded on 22 November 1991 (Commission of the European Community, *Official Journal of the European Community*, No. L 114/92).