# PART ONE

## RECENT TRENDS

# Chapter II

# Regional trends

## Introduction

This chapter examines in greater detail recent trends in foreign direct investment (FDI) within groups of countries and regions, focusing on issues of particular importance to each group and region.

## A. Developed countries

### 1. A new pattern of investment flows?

The declining flows of FDI from and to developed countries in 1991 and 1992 were unevenly distributed among major home and host countries, leading to substantial shifts in the relative positions of these countries and changing the pattern that had emerged during the second half of the 1980s. The main shifts were:

- The United States resumed its place as the largest home country, a position held until the mid-1980s and then lost to the United Kingdom and later on to Japan (table I.6). Japan fell to third place, behind France, and the United Kingdom to fifth place, behind Germany. While the United States has maintained a high level of outflows, despite the recession, both Japan and the United Kingdom experienced large declines in their outflows. The United

**Table I.1. Number of parent transnational corporations and foreign affiliates, by area and country, early 1990s**

| Area economy | Parent corporations based in country (Number) | Foreign affiliates located in country [a] (Number) | Year |
|---|---|---|---|
| **Developed countries** | 34 280 | 87 831 | |
| Australia | 1 036 | 695 | 1992 |
| Austria | 716 | 2 172 | 1991 |
| Belgium and Luxembourg | 96 | 1 121 | 1978 |
| Canada | 1 396 [b] | 6 328 | 1992 |
| Denmark | 800 | 647 [c] | 1992 |
| Finland | 1 300 | 1 300 | 1993 |
| France | 2 218 | 7 610 | 1991 |
| Germany | 7 560 [d] | 12 566 [e] | 1991 |
| Greece | .. | 798 | 1981 |
| Iceland | 14 [f] | 28 | 1991 |
| Ireland | 36 | 1 007 | 1993 |
| Italy | 263 | 1 438 | 1992 |
| Japan | 3 640 [g] | 3 125 [h] | 1992 |
| Netherlands | 1 608 [i] | 2 259 [i] | 1993 |
| New Zealand | 201 | 1 078 | 1991 |
| Norway | 1 000 | 2 700 | 1992 |
| Portugal | 684 | 6 680 | 1992 |
| South Africa | .. | 1 884 | 1978 |
| Spain | 744 | 6 232 | 1992 |
| Sweden | 3 529 | 2 400 | 1991 |
| Switzerland | 3 000 | 4 000 | 1985 |
| Turkey | .. | 2 528 [j] | 1993 |
| United Kingdom [k] | 1 467 [l] | 3 894 [m] | 1992 |
| United States | 2 972 [n] | 15 341 [o] | 1991 |
| **Developing economies** | 2 850 | 97 330 | |
| Brazil | 566 | 8 576 | 1992 |
| China | 379 [f] | 45 000 | 1993 |
| Colombia | .. | 1 041 | 1987 |
| Hong Kong | 500 | 2 828 | 1991 |
| India | 187 | 926 [p] | 1991 |
| Indonesia | .. | 1 064 | 1988 |
| Mexico | .. | 8 420 | 1993 |
| Oman | .. | 1 489 | 1989 |
| Pakistan | 57 | 560 [q] | 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 |
| **Central and Eastern Europe** [r] | 400 | 21 800 | |
| Bulgaria | 26 | 114 [s] | 1991 |
| Commonwealth of Independent States [t] | 68 [h] | 3 900 | 1992 |
| Former Czechoslovakia | 26 [h] | 800 | 1992 |
| Hungary | 66 [h] | 2 400 | 1992 |
| Poland | 58 [h] | 3 800 | 1992 |
| Romania | 20 [h] | 6 900 | 1992 |
| Others | 136 | 3 886 | 1992 |
| **World** | 37 530 | 206 961 | |

*Source*: UNCTAD, Division on Transnational Corporations and Investment, based on UNCTC, 1992a; UNTCMD, 1993a; UNCTAD-DTCI, 1994a, 1994b; and national official and secondary sources.

a Represents the number of foreign affiliates in the country shown.

b For 1991.

c For 1986.

d Does not include holding companies abroad that are dependent on German-owned capital and which, in turn, hold participating interests of more than 20 per cent abroad (indirect German participating interests).

e Does not include the number of foreign-owned holding companies in Germany which, in turn, hold participating interests in Germany (indirect foreign participating interests).

f For 1989.

g As of October 1992.

h As of November 1992.

i As of October 1993.

j As of 30 November 1993.

k Data on the number of parent companies based in the United Kingdom, and the number of foreign affiliates in the United Kingdom are based on the register of companies held for inquiries into United Kingdom FDI and FDI into the United Kingdom conducted by the Central Statistical Office. On that basis, the numbers are probably understated because of lags in identifying investment in greenfield sites and because some companies with small presences in the United Kingdom and abroad have not yet been identified.

l Represents a total of 24 bank parent firms and 1,443 nonbank parent firms in 1991.

m Represents 518 foreign affiliates in banking in 1992 and 3,376 nonbank foreign affiliates in 1991.

n Represents a total of 2,160 nonbank parent firms in 1991 and 89 bank parent firms in 1989 with at least one foreign affiliate whose assets, sales or net income exceeded $3 million, and 723 nonbank and bank parent corporations in 1989 whose affiliate(s) had assets, sales and net income under $3 million.

o Represents a total of 10,538 nonbank affiliates in 1991 and 467 bank affiliates in 1987 whose assets, sales or net income exceeded $1 million, and 4,336 bank and nonbank affiliates in 1987 with assets, sales and net income under $1 million. Each affiliate represents a fully consolidated Unites States business enterprise, which may consist of a number of individual companies.

p For 1988.

q For 1987.

r Data for affiliates are estimated using the number of joint-venture registrations and available information on the number of registrations that are operational.

s For 1990.

t Relates to the whole of the economic territory of the former Soviet Union.

*Note:* Cross-country comparisons based on data reported in this table should be made with caution given differences in years and coverage across countries and that many countries report as parent firms or foreign affiliates only those companies with significant investments.

significantly higher than their share of worldwide investment inflows or inward stock, apparently because the average size of stock of FDI per affiliate in developed countries ($17.3 million) is higher than in developing countries ($4.3 million).

Despite the proliferation of companies with investments outside their home countries, the top 100 TNCs continue to account for a considerable proportion of the worldwide activities of the universe of TNCs. The world's largest 100 TNCs (not including those in banking and finance), ranked by foreign assets, had about $3.4 trillion in global assets in 1992, of which about $1.3 trillion were held outside their respective home countries (table I.2). These firms are estimated to account for about one-third of the combined outward FDI of their countries of origin. Controlling such a pool of assets and stock of investment, the largest TNCs exercise a considerable impact on home

## Table I.2. The top 100 transnational corporations ranked by foreign assets, 1992

| Rank | Corporation | Country | Industry [a] | Foreign assets | Total assets | Foreign sales | Total sales | Foreign employment | Total employment |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (Billions of dollars) | | | | (Thousands of employees) | |
| 1 | Royal Dutch/Shell b | United Kingdom/ Netherlands | Petroleum refining | 69.4 | 100.8 | 45.5 | 96.6 | 91.0 | 127.0 |
| 2 | Exxon | United States | Petroleum refining | 48.2 | 85.0 | 93.1 | 115.7 | 59.0 | 95.0 |
| 3 | IBM | United States | Computers | 45.7 | 86.7 | 39.9 | 64.5 | 143.9 | 301.5 |
| 4 | General Motors | United States | Motor vehicles and parts | 41.8 | 191.0 | 42.3 | 132.4 | 272.0 | 750.0 |
| 5 | Hitachi c | Japan | Electronics | .. | 66.6 | 13.9 | 58.4 | .. | 324.2 |
| 6 | Matsushita Electric c | Japan | Electronics | .. | 74.4 | 29.9 | 60.8 | 94.8 | 252.1 |
| 7 | Nestlé | Switzerland | Food | 28.7 | 31.3 | 37.7 | 38.4 | 211.3 | 218.0 |
| 8 | Ford | United States | Automobiles | 28.0 | 180.5 | 33.2 | 100.1 | 167.0 | 325.3 |
| 9 | Alcatel Alsthom c | France | Electronics | .. | 44.4 | 18.0 | 30.7 | 106.3 | 203.0 |
| 10 | General Electric | United States | Electronics | 24.2 | 192.9 | 8.4 | 57.1 | 58.0 | 231.0 |
| 11 | Philips Electronics | Netherlands | Electronics | 22.9 | 28.6 | 31.0 | 33.3 | 225.8 | 257.7 |
| 12 | Mobil | United States | Petroleum refining | 22.6 | 40.6 | 49.7 | 64.1 | 28.2 | 63.7 |
| 13 | Asea Brown Boveri d | Switzerland | Electronics, electrical equipment | 22.4 | 25.9 | 26.3 | 29.6 | 198.8 | 213.4 |
| 14 | Elf Aquitaine c | France | Petroleum refining | .. | 45.1 | 13.2 | 36.2 | .. | 87.9 |
| 15 | Volkswagen c | Germany | Motor vehicles and parts | .. | 46.6 | 29.4 | 54.7 | 109.0 | 273.0 |
| 16 | Toyota Motor Co. | Japan | Motor vehicles and parts | 20.7 | 76.7 | 22.0 | 81.3 | 16.3 | 108.2 |
| 17 | Siemens c | Germany | Electronics | .. | 44.6 | 27.0 | 50.3 | 160.0 | 413.0 |
| 18 | Daimler - Benz c | Germany | Transport and communication | .. | 52.5 | 35.8 | 63.1 | 74.0 | 376.5 |
| 19 | British Petroleum c | United Kingdom | Petroleum refining | .. | 31.5 | 34.0 | 58.6 | 71.7 | 97.7 |
| 20 | Unilever c | United Kingdom/ Netherlands | Food | 19.4 | 24.2 | 35.0 | 43.7 | 247.9 | 283.2 |
| 21 | Fiat | Italy | Motor vehicles and parts | 19.2 | 58.0 | 20.3 | 40.1 | 82.6 | 285.5 |
| 22 | Sony | Japan | Electronics | 19.0 | 39.1 | 13.4 | 34.4 | 71.1 | 126.0 |
| 23 | Hanson | United Kingdom | Building materials | 17.5 | 36.6 | 8.2 | 15.7 | 54.0 | 75.0 |
| 24 | ENI c | Italy | Petroleum refining | .. | 54.9 | 12.9 | 33.8 | 25.2 | 124.0 |
| 25 | Du Pont | United States | Chemicals | 16.0 | 38.9 | 17.5 | 37.8 | 36.9 | 128.7 |
| 26 | B.A.T. Industries | United Kingdom | Tobacco | 14.2 | 43.6 | 24.1 | 31.2 | 183.0 | 198.0 |
| 27 | Philip Morris | United States | Food | 13.8 | 50.0 | 20.0 | 59.1 | 70.0 | 161.0 |
| 28 | Nissho Iwai c | Japan | Trading | .. | 40.7 | 35.0 | 91.6 | 2.1 | 7.3 |
| 29 | Grand Metropolitan | United Kingdom | Food | 13.0 | 16.7 | 11.2 | 79.8 | | 102.4 |
| 30 | Bayer | Germany | Chemicals | 12.8 | 23.7 | 20.7 | 26.4 | 79.0 | 156.4 |
| 31 | Chrysler c | United States | Motor vehicles and parts | .. | 40.7 | 4.3 | 36.9 | 35.1 | 113.0 |
| 32 | Lyonnaise des Eaux c | France | Construction | .. | 24.3 | 7.4 | 16.4 | 83.9 | 161.1 |
| 33 | Total c | France | Petroleum refining | .. | 20.9 | 14.9 | 25.9 | 28.5 | 51.1 |
| 34 | Seagram | Canada | Beverages | 11.3 | 11.8 | 5.9 | 6.1 | 9.3 | 15.8 |
| 35 | Saint - Gobain c | France | Building materials | .. | 17.2 | 9.1 | 14.1 | 66.9 | 100.4 |
| 36 | Dow Chemical | United States | Chemicals | 10.8 | 25.4 | 9.4 | 18.9 | 28.2 | 61.4 |
| 37 | Xerox c | United States | Scientific and photo. equipment | .. | 34.1 | 9.1 | 18.3 | .. | 107.5 |
| 38 | Toshiba c | Japan | Electronics | .. | 45.0 | 11.0 | 37.0 | 29.0 | 173.0 |
| 39 | Ciba - Geigy | Switzerland | Chemicals | 10.4 | 21.0 | 10.5 | 15.9 | 68.4 | 90.6 |
| 40 | Procter & Gamble | United States | Soaps and cosmetics | 10.2 | 24.9 | 15.9 | 30.4 | 59.4 | 103.5 |
| 41 | BASF c | Germany | Chemicals | .. | 24.7 | 18.2 | 28.1 | 41.9 | 112.0 |
| 42 | Chevron | United States | Petroleum refining | 10.1 | 34.0 | 13.2 | 41.4 | 10.1 | 49.3 |
| 43 | Michelin | France | Rubber and plastics | 9.7 | 14.2 | 10.4 | 12.7 | .. | 130.7 |
| 44 | Petrofina c | Belgium | Petroleum industry | .. | 10.7 | .. | 16.7 | 10.5 | 15.5 |
| 45 | Honda c | Japan | Motor vehicles and parts | .. | 24.1 | 19.5 | 29.3 | .. | 90.9 |
| 46 | Sandoz | Switzerland | Pharmaceuticals | 9.3 | 12.7 | 9.8 | 10.2 | 45.8 | 53.4 |
| 47 | Bridgestone c | Japan | Rubber and plastics | .. | 14.8 | 7.5 | 14.0 | 54.0 | 85.8 |
| 48 | Texaco | United States | Petroleum refining | 9.2 | 26.0 | 17.2 | 36.8 | 13.1 | 38.0 |
| 49 | Hoechst c | Germany | Chemicals | .. | 22.9 | 22.1 | 29.4 | 90.3 | 177.7 |
| 50 | Electrolux c | Sweden | Electronics | .. | 11.5 | 12.4 | 14.2 | 104.9 | 121.1 |
| 51 | Pepsico | United States | Beverage | 9.0 | 21.0 | 5.4 | 22.0 | 82.0 | 372.0 |
| 52 | Nissan Motor | Japan | Motor vehicles and parts | 8.9 | 62.9 | .. | 50.2 | .. | 143.7 |

| Rank | Corporation | Country | Industry [a] | Foreign assets | Total assets | Foreign sales | Total sales | Foreign employment | Total employment |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (Billions of dollars) | | | | ( Thousands of employees) | |
| 53 | Rhône - Poulenc | France | Chemicals | 8.8 | 20.4 | 12.1 | 14.8 | 42.5 | 83.3 |
| 54 | Itochu Corporation | Japan | Trading | 8.7 | 61.4 | 5.2 | 165.8 | 3.3 | 7.4 |
| 55 | Sharp c | Japan | Electronics | .. | 18.2 | 6.6 | 12.8 | 29.0 | 63.0 |
| 56 | Amoco | United States | Petroleum refining | 8.4 | 28.5 | 7.5 | 25.3 | 8.4 | 47.0 |
| 57 | Marubeni c | Japan | Trading | .. | 69.5 | 34.0 | 149.4 | .. | 9.6 |
| 58 | Eastman Kodak c | United States | Scientific and photo. equipment | .. | 23.1 | 6.2 | 20.6 | 55.4 | 132.6 |
| 59 | Renault | France | Motor vehicles and parts | 8.3 | 24.0 | 15.2 | 34.1 | 42.4 | 146.6 |
| 60 | Roche Holdings | Switzerland | Pharmaceuticals | 8.2 | 18.9 | 8.9 | 9.2 | 45.7 | 56.3 |
| 61 | ICI | United Kingdom | Chemicals | 8.0 | 19.1 | 17.2 | 21.2 | 72.5 | 117.5 |
| 62 | Holderbank | Switzerland | Building materials | 7.6 | 8.2 | 5.0 | 5.6 | 33.0 | 35.2 |
| 63 | Volvo c | Sweden | Motor vehicles and parts | .. | 16.0 | 9.9 | 11.4 | 21.2 | 60.6 |
| 64 | ITT e | United States | Diversified services | 7.5 | 49.0 | 6.5 | 20.6 | .. | 114.0 |
| 65 | Thomson Corporation | Canada | Publishing and printing | 7.4 | 7.9 | 5.5 | 6.0 | 41.3 | 46.4 |
| 66 | Glaxo Holdings | United Kingdom | Pharmaceuticals | 7.3 | 10.8 | 6.4 | 7.2 | 25.1 | 37.1 |
| 67 | NEC Corporation c | Japan | Electronics | .. | 31.9 | 6.3 | 27.7 | .. | 140.9 |
| 68 | Veba c | Germany | Trading | .. | 32.4 | 10.5 | 39.4 | 21.7 | 129.8 |
| 69 | Robert Bosch c | Germany | Motor vehicles and parts | .. | 15.2 | 10.1 | 22.1 | 64.2 | 177.2 |
| 70 | Solvay c | Belgium | Chemicals | .. | 7.9 | 7.2 | 39 | 40.5 | 45.4 |
| 71 | BMW c | Germany | Motor vehicles and parts | .. | 17.0 | 11.6 | 20.0 | 10.0 | 73.6 |
| 72 | Pechiney | France | Metals | 6.9 | 12.8 | 7.8 | 12.4 | 26.6 | 63.3 |
| 73 | RTZ | United Kingdom | Mining and crude-oil production | 6.8 | 6.9 | 7.2 | 44.0 | 45.0 | 68.3 |
| 74 | Alcan Aluminum | Canada | Metal products | 6.7 | 10.1 | 6.6 | 7.6 | 35.0 | 49.0 |
| 75 | Mitsui c | Japan | Trading | .. | 69.8 | 32.3 | 147.8 | .. | 11.5 |
| 76 | Digital Equipment | United States | Computers | 6.5 | 11.3 | 8.7 | 13.9 | 56.5 | 113.8 |
| 77 | Usinor - Sacilor | France | Metals | 6.3 | 18.1 | 11.1 | 16.5 | 28.7 | 89.0 |
| 78 | Smithkline Beecham | United Kingdom | Pharmaceuticals | 6.2 | 8.9 | 8.2 | 9.1 | 43.7 | 53.7 |
| 79 | Atlantic Richfield c | United States | Petroleum refining | .. | 24.2 | 4.3 | 18.1 | .. | 26.8 |
| 80 | Hewlett - Packard | United States | Computers | 5.9 | 13.7 | 9.2 | 16.4 | .. | 93.0 |
| 81 | Stora | Sweden | Forestry products | 5.9 | 10.5 | 6.5 | 8.0 | 20.6 | 38.9 |
| 82 | Canon | Japan | Computers | 5.6 | 17.4 | 9.5 | 13.6 | .. | 64.5 |
| 83 | Ericsson c | Sweden | Telecommunication | .. | 7.9 | 7.1 | 8.1 | 36.2 | 66.2 |
| 84 | GTE | United States | Telecommunications | 5.4 | 42.1 | 2.4 | 20.0 | 24.9 | 131.2 |
| 85 | Fletcher Challenge | New Zealand | Forestry products | 5.4 | 11.7 | 3.2 | 5.5 | 18.4 | 30.6 |
| 86 | McDonald's | United States | Restaurants | 5.3 | 11.7 | 3.4 | 7.1 | .. | 166.0 |
| 87 | Sara Lee Corporation | United States | Food | 5.3 | 10.0 | 4.5 | 13.2 | 55.4 | 128.0 |
| 88 | BHP | Australia | Metals | 5.3 | 18.0 | 3.6 | 11.4 | 14.3 | 47.0 |
| 89 | Johnson & Johnson | United States | Pharmaceuticals | 5.2 | 11.9 | 6.9 | 13.8 | 44.4 | 84.9 |
| 90 | Mitsubishi c | Japan | Trading | .. | 30.7 | 21.2 | 26.5 | .. | 107.9 |
| 91 | Thomson | France | Electronics | 5.1 | 18.1 | 9.1 | 13.4 | 53.2 | 10.1 |
| 92 | Akzo | Netherlands | Chemicals | 5.0 | 7.5 | 6.4 | 9.5 | 42.6 | 62.5 |
| 93 | 3M | United States | Scientific and photo. equipment | 4.8 | 12.0 | 6.8 | 13.9 | 38.2 | 87.0 |
| 94 | Neste Corporation c | Finland | Petroleum refining | .. | 9.8 | 10.0 | 12.8 | 5.3 | 13.0 |
| 95 | International Paper | United States | Paper | 4.6 | 16.5 | 3.4 | 13.6 | 23.0 | 73.0 |
| 96 | Lonrho | United Kingdom | Mining | 4.6 | 6.3 | 3.5 | 6.8 | 126.9 | 137.2 |
| 97 | United Technologies | United States | Aerospace | 4.6 | 15.9 | 8.7 | 22.0 | 86.6 | 178.0 |
| 98 | Peugeot | France | Motor vehicles and parts | 4.5 | 23.4 | 16.4 | 28.2 | 28.2 | 150.8 |
| 99 | Norsk Hydro | Norway | Chemicals | 4.5 | 12.5 | 6.0 | 9.8 | 17.8 | 34.0 |
| 100 | Alcoa | United States | Metals | 4.5 | 11.0 | 3.8 | 9.5 | 29.4 | 63.6 |

*Source*: UNCTAD, Division on Transnational Corporations and Investment.

a Industry classification for 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 and McDonald's. In the Fortune classification, companies are included in the industry or services 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, GE, Grand Metropolitan, Hanson, ITT, Sandoz and United Technologies.

b Foreign sales figures are outside Europe whereas foreign employment figures are outside the United Kingdom and the Netherlands.

c Data on foreign assets are not available; ranking according to foreign assets estimated on the basis of the ratio of foreign to total employment, foreign to total fixed assets and other similar ratios.

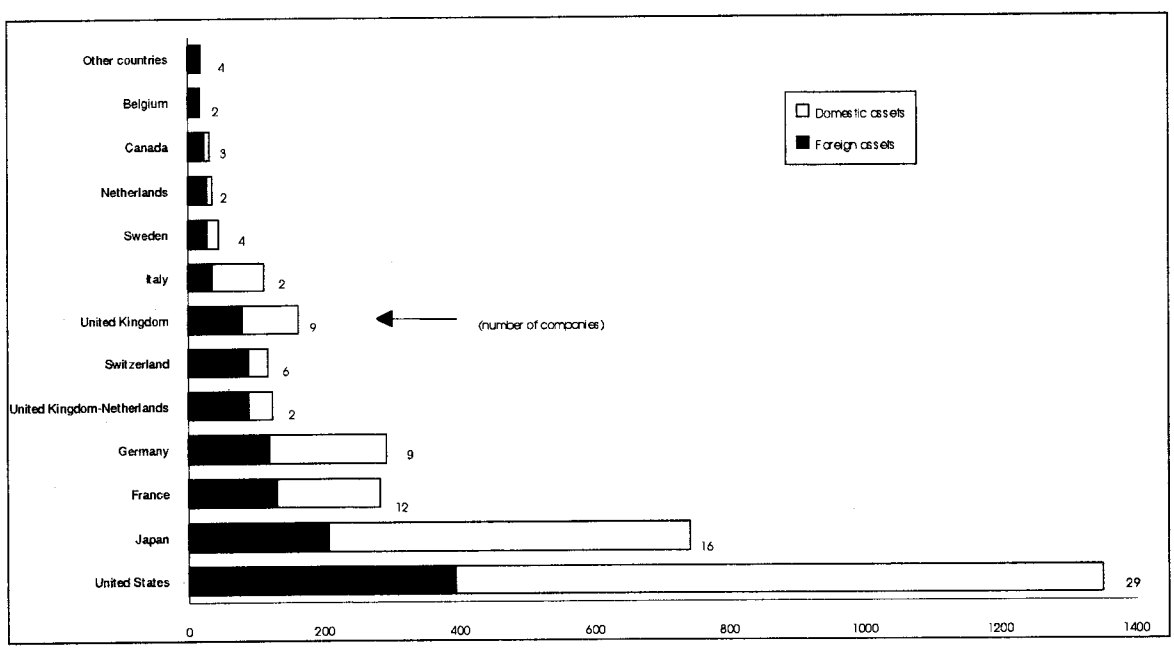
d Company's businesss include electric power generation, transmission and distribution, and rail transportation.

e Provisional data based on estimates.

and host countries' output, demand patterns, trade and technology flows, employment and labour practices. They also influence the structure and pattern of competition of their industries.

All of the world's 100 largest TNCs are based in developed countries: 38 in the European Union, 29 in the United States, 16 in Japan, and the remaining 17 in Australia, Canada, Finland, New Zealand, Norway, Sweden and Switzerland (figure I.1). While TNCs from the largest source countries — France, Germany, Japan, the United Kingdom and the United States — have the largest *absolute* value of assets abroad, firms from smaller countries, such as Belgium, the Netherlands, Sweden and Switzerland, have a larger *share* of their assets abroad. For example, Solvay (Belgium) has about 90 per cent of its total assets and 90 per cent of its 45,000 employees located abroad. The limited domestic markets of these countries constitute a constraint for their TNCs to expand at home.

**Figure I.1. The top 100 transnational corporations: number of companies and assets by home country, 1992**
(Number of companies and billions of dollars)

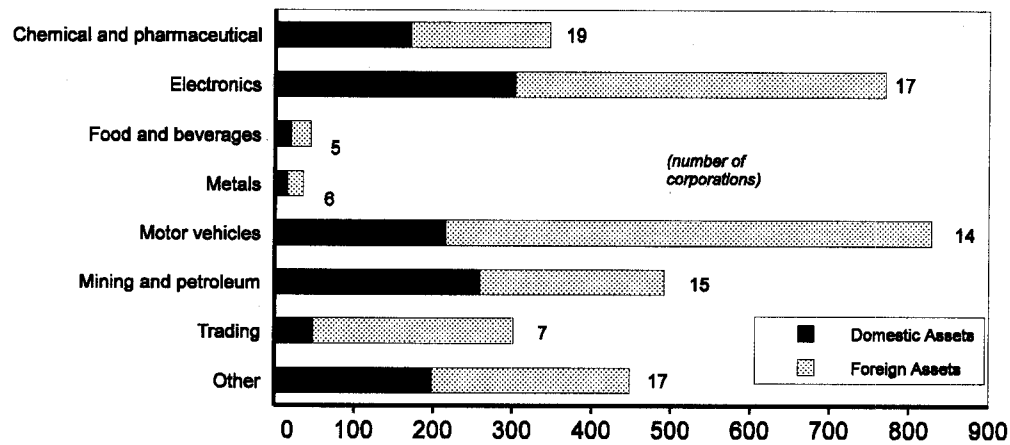



*Source:* UNCTAD, Division on Transnational Corporations and Investment.

In terms of distribution by industry, the largest number of the 100 TNCs originates in the chemicals and pharmaceuticals industries, followed by the electronics, computers, oil and motor vehicles industries (figure I.2). Ranking by size of foreign assets changes the sequence of these industries: the most important industry is electronics, followed by the oil, chemicals, pharmaceuticals and motor vehicles industries (box I.1).

Changes in foreign assets — the ranking variable of the 100 largest TNCs — were uneven during the recent recession. While they increased by 7 per cent in 1991, the expansion in 1992 was only 1 per cent.[1] Foreign assets of these companies in 1991 increased slightly more than domestic assets in 1991, which rose by 5 per cent. In 1992 foreign assets rose by 1 per cent, slightly less than the 3 per cent increase in domestic assets. Since assets are expressed in nominal dollar terms, their

**Figure I.2. The top 100 transnational corporations: assets by industry, 1992**




*Source:* UNCTAD, Division on Transnational Corporations and Investment.

growth is also affected by exchange-rate fluctuations. In 1990, the United States dollar fell sharply against the major European currencies and the Japanese yen, thus boosting the dollar value of assets denominated in those currencies. In 1991, by contrast, the dollar remained fairly stable against those currencies, but in 1992, after the currency turmoil in the European Monetary System, it appreciated against the major European currencies, thus reducing the dollar value of the assets of European TNCs. Therefore, to a certain extent, the growth of foreign assets of the 100 largest TNCs had been less affected by exchange-rate movements in 1991 than in 1992.

Half of the top 100 TNCs registered an increase in foreign assets in 1992. In the remaining companies, foreign assets either stagnated or declined (table I.3). For those companies, the decline of foreign assets has been accompanied by a parallel reduction of total assets, mainly reflecting divestment or a reduction of output in response to the economic recession in developed countries.

Total employment by the top 100 TNCs in 1992 is estimated at about 12 million. About 43 per cent of that figure was in affiliates abroad, a share unchanged since 1990. For those TNCs within the group of the top 100 for which data are available for the past decade, the growth of foreign employment has been modest compared to the growth of foreign assets.

## B. Foreign direct investment

The principal measure of annual changes in the cross-border investment activities of TNCs is FDI flows. As long as such flows remain positive, even if they decline from year to year, they mark the expansion of TNC activities. The outstanding feature of FDI flows during 1992 and 1993 was their considerable increase into developing countries; flows into these countries reached record levels of over $50 billion in 1992 and an estimated $80 billion in 1993, an increase of 32 per cent in 1992 and an estimated 55 per cent in 1993. In fact, between 1986 (the beginning of the latest global FDI upswing) and 1993, investment flows into developing countries increased five-fold. As a result, developing countries accounted for 33 per cent in 1992 and an estimated 41 per cent in 1993

## Box I.1. The top 100 transnational corporations and their industries

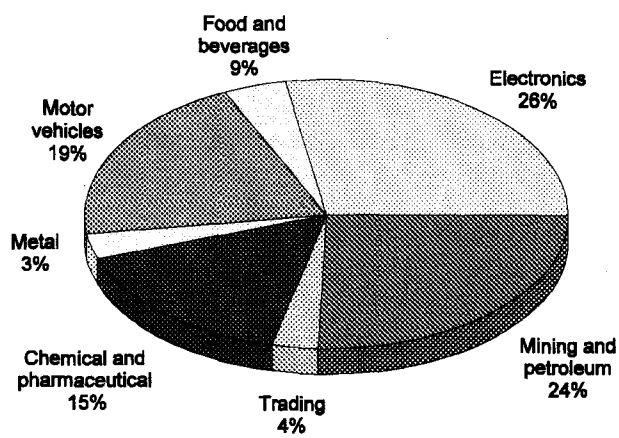
Among the top 100 TNCs, those in *computers and electronics* had the largest assets abroad in 1992. During the early 1990s, these companies, pushed by rapidly changing technologies, competition and increasing market segmentation, undertook either large greenfield investments or major acquisitions. As a result and despite the recession, the value of their foreign assets increased from $215 billion in 1990 to $300 billion in 1992 (figure 1). In that year, 7 of the top 17 TNCs in electronics and computers were Japanese (Matsushita Electric Industrial Co., Sony Corporation, Toshiba Corporation, Hitachi Co., Sharp, NEC and Canon). Total sales of these firms were $250 billion, of which about 30 per cent are abroad. Japanese electronics manufacturers have made some major acquisitions in the United States and expanded their production facilities in South and South-East Asia. Among the European firms, the fastest growth of assets abroad was registered by the French electronics group Alcatel-Alsthom, which moved up from the twenty-first position in 1990 to the sixth position in 1991 and then fell to the tenth position in 1992. The group has diversified into telecommunications, engineering and transport through a number of acquisitions. With three-quarters of its sales outside France, a management base in Paris and a financial base in the Netherlands,a Alcatel has also become one of the world's most transnational business groups.

Companies in the *oil* industry -- typically prominent among the top 100 TNCs -- grew slowly due to falling demand and declining oil prices, and their ranking generally declined. Traditionally, these companies have held most of their assets abroad, in response to geographical location of oil deposits and also reflecting the capital intensity of this industry.

*Automobile* manufacturers generally maintained their rankings among the top 100 TNCs, despite rationalizations and cost-cutting measures that resulted in a certain decrease of both total and foreign assets, sales and employment. International partnership arrangements and even mergers -- normally difficult in this industry -- have been used widely in view of large unused capacity of automobile manufacturers (especially in Europe) and stagnant demand.

**Figure 1. The top 100 transnational corporations: distribution of foreign assets, by industry, 1992**

(Percentage)




Among the 16 TNCs in *chemicals and pharmaceuticals*, 12 firms are European and four are based in the United States. It is interesting to note that Japanese companies in these industries do not rank among the top 100, despite some significant acquisitions made recently in the United States and in Europe.

a *Financial Times*, 5 January 1994.

**Table I.3. Changes in foreign assets of the top 100 transnational corporations, 1990-1992**

| Growth rate | Number of TNCs | Name of TNC |
|---|---|---|
| **Rapid growth** (more than 10 per cent) | 32 | Daimler Benz, Hanson, ENI, Toyota, Veba, Chrysler, Matsushita Electric Industrial, Nissho Iwai, Alcatel Alsthom, Seagram, General Electric, Robert Bosch, Xerox, Marubeni, Toshiba, Procter & Gamble, Honda, Sandoz, Bridgestone, Lyonnaise des Eaux, Pepsico, Sharp, NEC Corporation, BMW, Total, Ericsson, Sara Lee, Nestlé Corporation, International Paper, Lonrho, Hitachi, Canon. |
| **Strong growth** (5 to 10 per cent) | 13 | Eastman Kodak, Glaxo, Digital Equipment, Smithkline Beecham, Atlantic Richfield, BHP, Johnson & Johnson, Nestlé, Elf Aquitaine, Grand Metropolitan, Chevron, Texaco, Electrolux. |
| **Average growth** (2 to 5 per cent) | 10 | Renault, Holderbank, Usinor Sacilor, Hewlett-Packard, GTE, McDonald's, Volkswagen, Siemens, Philip Morris, Saint Gobain. |
| **No growth** | 14 | Nissan Motor, ITT, Thomson Corporation, 3M, United Technologies, Norsk Hydro, Royal Dutch Shell, IBM, General Motors, Mobil, Sony, Du Pont, B.A.T. Industries, Petrofina. |
| **Decline** | 31 | Rhône-Poulenc, Itochu Corporation, Amoco, Roche Holdings, ICI, Volvo, Solvay, Pechiney, RTZ, Mitsui, Stora, Alcan Aluminium, Fletcher Challenge, Mitsubishi, Thomson, Akzo, Peugeot, Alcoa, Exxon, Ford, Philips Electronics, Asea Brown Boveri, British Petroleum, Unilever, Fiat, Bayer, Dow Chemical, Ciba-Geigy, BASF, Michelin, Hoechst. |

*Source:* UNCTAD, Division on Transnational Corporations and Investment.

of global FDI inflows, shares unsurpassed throughout the period since 1970.[2] Estimated flows into developing countries in 1993 were the same as total world inflows in 1986. This increasing significance of developing countries as hosts to FDI occurred while investment flows into developed countries declined further in 1992(table I.4), although they began to recover in 1993.

South, East and South-East Asia as well as Latin America and the Caribbean — but not Africa — participated in this increase. The attractiveness of developing countries to FDI can largely be explained by their good economic performance overall, contrasted with lingering recession or slow growth in developed countries, efforts of TNCs to find cost-efficient locations for international production and new dynamic markets, combined with the ongoing relaxation of investment regulations, including the implementation of privatization programmes open to foreign participation. A detailed review of regional trends is featured in chapter II, but highlights by region are:

## Table I.4. Inflows and outflows of foreign direct investment, 1981-1993

| Country | 1981-1985 Annual average | 1986-1990 Annual average | 1988 | 1989 | 1990 | 1991 | 1992 | 1993[a] |
|---|---|---|---|---|---|---|---|---|
| | (Billions of dollars) | | | | | | | |
| **Developed countries** | | | | | | | | |
| Inflows | 37 | 130 | 131 | 168 | 176 | 121 | 102 | 109 |
| Outflows | 47 | 163 | 162 | 212 | 222 | 185 | 162 | 181 |
| **Developing countries** | | | | | | | | |
| Inflows | 13 | 25 | 28 | 27 | 31 | 39 | 51 | 80 |
| Outflows | 1 | 6 | 6 | 10 | 10 | 7 | 9 | 14 |
| **Central and Eastern Europe**[c] | | | | | | | | |
| Inflows | 0.02 | 0.1 | 0.015 | 0.3 | 0.3 | 2 | 4 | 5 |
| Outflows | 0.004 | 0.02 | 0.02 | 0.02 | 0.04 | 0.01 | 0.03 | .. |
| **All countries** | | | | | | | | |
| Inflows | 50 | 155 | 159 | 196 | 208 | 162 | 158 | 194 |
| Outflows | 48 | 168 | 168 | 222 | 232 | 192 | 171 | 195 |

| Country | 1981-1985 Annual average | 1986-1990 Annual average | 1991 | 1992 | 1993 |
|---|---|---|---|---|---|
| | Share in total (percentage) | | | | |
| **Developed countries** | | | | | |
| Inflows | 74 | 84 | 74 | 65 | 56 |
| Outflows | 98 | 96 | 96 | 95 | .. |
| **Developing countries** | | | | | |
| Inflows | 26 | 16 | 24 | 32 | 41 |
| Outflows | 2 | 4 | 4 | 5 | .. |
| **Central and Eastern Europe**[c] | | | | | |
| Inflows | 0.04 | 0.1 | 1 | 3 | 3 |
| Outflows | 0.01 | 0.01 | 0.005 | 0.02 | .. |
| **All countries** | | | | | |
| Inflows | 100 | 100 | 100 | 100 | 100 |
| Outflows | 100 | 100 | 100 | 100 | .. |

| Country | 1981-1985 Annual growth rate | 1986-1990 Annual growth rate | 1991 | 1992 | 1993 |
|---|---|---|---|---|---|
| | Growth rate (percentage)[b] | | | | |
| **Developed countries** | | | | | |
| Inflows | 1 | 24 | -32 | -5 | 7 |
| Outflows | 3 | 24 | -17 | -12 | 12 |
| **Developing countries** | | | | | |
| Inflows | -4 | 17 | 25 | 32 | 54 |
| Outflows | 33 | 49 | -28 | 33 | 55 |
| **Central and Eastern Europe**[c] | | | | | |
| Inflows | 1 | 90 | 716 | 85 | 25 |
| Outflows | -11 | 20 | -74 | 172 | .. |
| **All countries** | | | | | |
| Inflows | -0.1 | 23 | -22 | -2 | 23 |
| Outflows | 3 | 24 | -17 | -11 | 14 |

*Source:* UNCTAD, Division on Transnational Corporations and Investment, based on UNCTC, 1992a; UN-TCMD, 1993a; UNCTAD-DTCI, 1994a, 1994b, 1994c; International Monetary Fund, balance-of-payments tape, retrieved in April 1994, and estimates of the Organisation for Economic Co-operation and Development; and annex tables 1 and 2.

a/ Based on preliminary estimates.

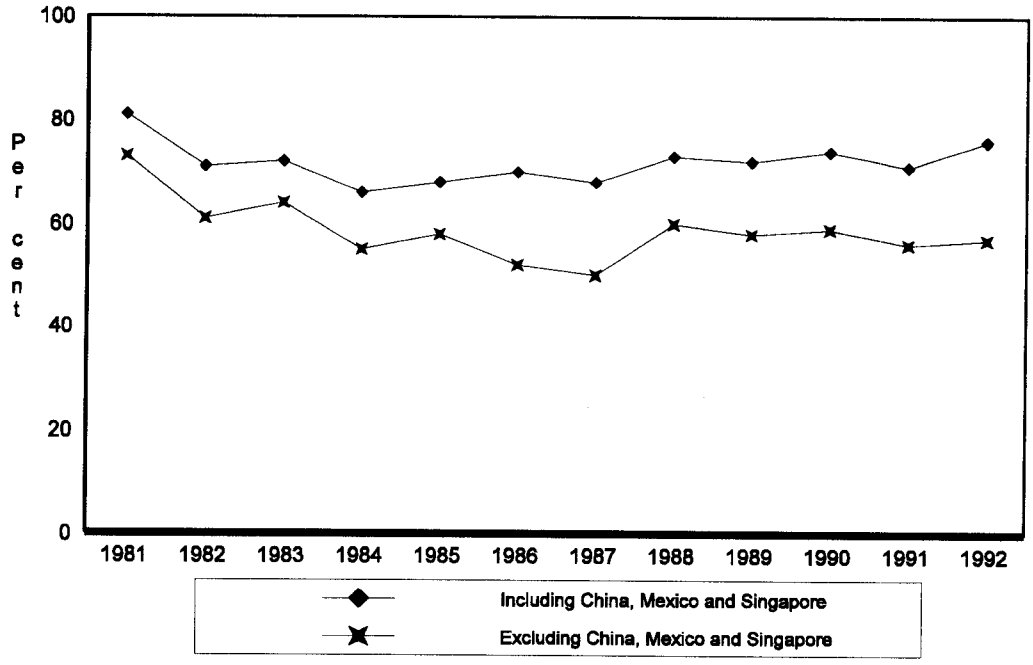
b/ Compounded growth rate estimates, based on a semi-logarithmic regression equation.

c/ Former Yugoslavia is included in developing countries.

*Note*: The levels of worldwide inward and outward FDI flows and stocks should balance; however, in practice, they do not. The causes of the discrepancy include differences between countries in the definition and valuation of FDI; the treatment of unremitted branch profits in inward and outward direct investment; treatment of unrealized capital gains and losses; the recording of transactions of "offshore" enterprises; the recording of reinvested earnings in inward and outward direct investment; the treatment of real estate and construction investment; and the share-in-equity threshold in inward and outward direct investment.

**Figure I.3. Share of the ten largest host countries in foreign-direct-investment inflows to developing countries, 1981-1992**

(Percentage)




*Source:* UNCTAD, Division on Transnational Corporations and Investment, based on table 1.5.

- *South, East and South-East Asia.* Vibrant economies, flourishing domestic markets and low production costs combined with high productivity encouraged more investment to flow to South, East and South-East Asia. With over $11.1 billion inflows and $4 billion outflows, China has emerged as the largest developing-country recipient and source of investment flows in 1992, accounting for over one-fifth of total inflows to all developing countries. In 1993, FDI flows into China were nearly $26 billion, or about one-third of investment flows into all developing countries. South, East and South-East Asia accounted for 57 per cent of total inflows to developing countries in 1992 (table II.10).
- *Latin America and the Caribbean.* Economic reforms leading to improved economic performance in several countries in Latin America together with regional integration schemes and continued efforts to attract TNCs through a further liberalization of investment regulations and through privatization programmes, contributed significantly to the re-emergence of the region as a major recipient of FDI. Latin America and the Caribbean accounted for 34 per cent of total inflows to developing countries in 1992 (table II.10).
- *Africa.* Foreign direct investment in Africa as a whole, after a relatively good performance during the second half of the 1980s, ceased to grow noticeably during the early 1990s. As a result, Africa's share in the total flows into developing countries declined from 12 per cent to 6 per cent between these two periods.

The flows of FDI into developing countries have been unevenly distributed, not only among regions but also, and even more so, among individual countries; in the years between 1981 and 1992, the ten largest host developing countries consistently absorbed between 66 and 81 per cent of total flows into developing countries (figure I.3). The composition of the ten countries has also

## Table I.5. The ten largest host developing economies to foreign-direct-investment flows, 1981-1992
(Millions of dollars and percentage)

| *Host economy* | *1981* | *1982* | *1983* | *1984* | *1985* | *1986* | *1987* | *1988* | *1989* | *1990* | *1991* | *1992* | *Total 1981-1992* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| China | | 430 | 636 | 1 258 | 1 659 | 1 875 | 2 314 | 3 194 | 3 393 | 3 487 | 4 366 | 11 156 | 33 768 |
| Singapore | 1 660 | 1 602 | 1 134 | 1 302 | 1 047 | 1 710 | 2 836 | 3 655 | 2 773 | 5 263 | 4 395 | 5 635 | 33 012 |
| Mexico | 2 835 | 1 655 | 461 | 390 | 491 | 1 523 | 3 246 | 2 594 | 3 037 | 2 632 | 4 762 | 5 366 | 28 992 |
| Malaysia | 1 265 | 1 397 | 1 261 | 797 | 695 | 489 | 423 | | 1 668 | 2 332 | 3 998 | 4 469 | 18 794 |
| Brazil | 2 520 | 2 910 | 1 560 | 1 598 | 1 348 | | 1 225 | 2 969 | 1 267 | 901 | | 1 454 | 17 752 |
| Hong Kong | 1 088 | 652 | 603 | 679 | | 996 | 3 298 | 2 627 | 1 076 | 1 728 | | 1 918 | 14 665 |
| Argentina | 837 | | | 268 | 919 | 574 | | 1 147 | | 1 836 | 2 439 | 4 179 | 12 199 |
| Thailand | | | 350 | 401 | | | | 1 105 | 1775 | 2 444 | 2 014 | 2 116 | 10 205 |
| Egypt | 753 | | 490 | 729 | 1 178 | 1 217 | 948 | 1 190 | 1 250 | | | | 7 755 |
| Taiwan Province of China | | | | | 340 | 326 | 715 | 959 | 1 604 | 1 330 | 1 271 | | 6 545 |
| Nigeria | 546 | 433 | 344 | | 478 | | 603 | | 1 882 | | | 897 | 5 183 |
| Indonesia | | | | | | | | | | 1 093 | 1 482 | 1 774 | 4 349 |
| Colombia | | 366 | 618 | 584 | 1 023 | 674 | | | | | | | 3 265 |
| Korea, Republic of | | | | | | 435 | 601 | | | | 1 116 | | 2 152 |
| Venezuela | | | | | | | | | | | 1 916 | | 1 916 |
| Philippines | | | | | | | | 936 | | | | | 936 |
| Chile | 383 | 401 | | | | | | | | | | | 784 |
| Tunisia | 293 | 340 | | | | | | | | | | | 633 |
| **Total, ten largest host countries** | 12 180 | 10 186 | 7 457 | 8 006 | 9 178 | 9 819 | 16 208 | 20 376 | 19 726 | 23 046 | 27 759 | 38 964 | 202 905 |
| **All developing countries** | 15 062 | 14 309 | 10 418 | 12 157 | 13 582 | 14 095 | 23 953 | 27 772 | 27 376 | 31 266 | 39 060 | 51 485 | 280 534 |
| **Percentage share of the ten largest host countries in total inflows to developing countries** | 81 | 71 | 72 | 66 | 68 | 70 | 68 | 73 | 72 | 74 | 71 | 76 | 72 |
| *Memorandum:* **Percentage share of the host countries ranked from four to thirteen** | 73 | 61 | 64 | 55 | 58 | 52 | 50 | 60 | 58 | 59 | 56 | 57 | 58 |

*Source:* UNCTAD, Division on Transnational Corporations and Investment, based on International Monetary Fund, balance-of-payments tape, retrieved in April 1994; estimates of the Organisation for Economic Co-operation and Development and annex table 1.

been relatively stable over that period (table I.5). The high concentration of inflows is not dependent on the size of inflows to the top three recipients. The share of host developing countries ranked four to thirteen, that is excluding the top three recipients: China, Mexico and Singapore, is not significantly less (figure I.3 and table I.5). On the other hand, flows of investment into the 47 least developed countries were only $303 million in 1992 (less than the size of inflows to Pakistan), and their share of total inflows to developing countries was 0.6 per cent in 1992, declining from 0.9 per cent in 1991.

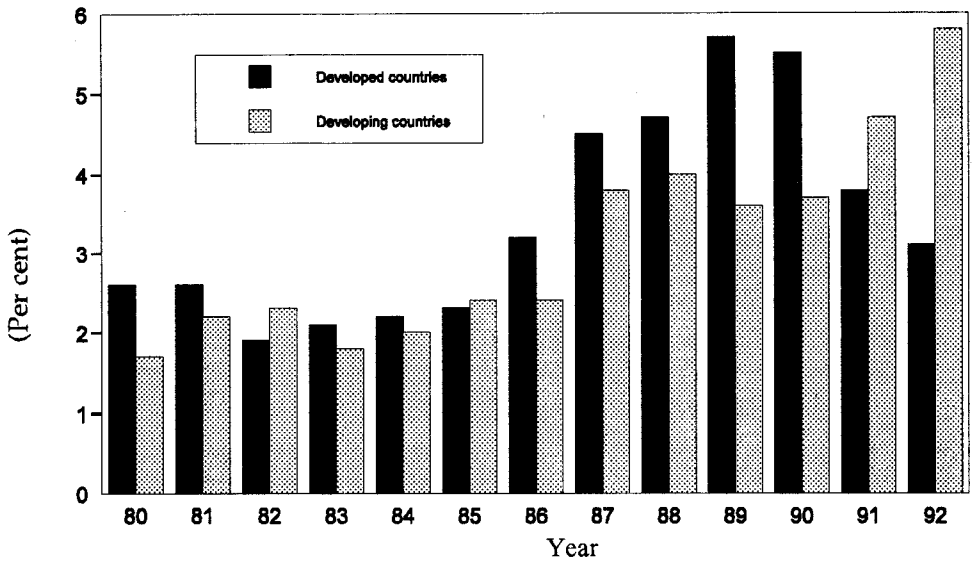
Inflows to the countries of Central and Eastern Europe continued to grow in the 1990s, accounting for almost 3 per cent of worldwide inflows of FDI in 1992. The pace of growth of inflows has, however, slowed down due to economic recession in the principal source countries and difficulties encountered in the process of transition towards a market-economy system. Investment flows continue to be unevenly distributed among the countries in Central and Eastern Europe reflecting, among other things, different levels of development and different rates of progress in the establishment of market economies and the institutions needed to sustain them. Potentially large domestic markets (if growth resumes and more progress is made in the transition to market economies), proximity to Western European markets, a high level of human resource development, low wages, low production costs, exploitable natural resources (in some countries) and the privatization of state-owned enterprises are factors that have induced investments in the region.

Inflows to developed countries continued to decline in 1992, although less steeply (15 per cent) than in 1991 (32 per cent). The decline in FDI flows into developed countries in the 1990s is mostly a consequence of poor economic performance resulting from a cyclical downswing in economic activity. Flows into developed countries are estimated to increase to $109 billion in 1993 as growth resumes in these countries. The highlights are the following:

- *United States.* Sluggish economic growth and low profitability of investments discouraged TNCs from investing in the United States, the world's largest host country since the late 1970s. Mergers and acquisitions in the United States have also declined drastically from 1990 to 1992. Cyclical as well as special problems in Japan — the largest investor in the United States — contributed to the dramatic fall (63 per cent) of Japanese investment flows into the United States in 1992. As a result of all this, flows into the United States in 1992 — at $3.4 billion — were about 13 per cent of their level in 1991 (table II.7). However, FDI flows into the United States recovered in 1993 to reach almost $32 billion.
- *Western Europe.* In contrast to the 28 per cent decline in inflows experienced by the European Community in 1991, inflows increased by 9 per cent to reach about $79 billion in 1992. Despite sizeable declines in flows into other countries in Western Europe (notably, Sweden), the region as a whole accounted for more than 80 per cent of total flows into developed countries in 1992: an unusually high share caused by the abnormally low level of flows into the United States in that year.
- *Japan.* The inflows of $2.7 billion in 1992 reflect a near-doubling from 1991. Still, Japan remains a small recipient, accounting for less than 3 per cent of total flows into developed countries in 1992.
- *Other developed countries.* The overall level of flows into these countries declined somewhat in 1992, reflecting a sharp fall of flows into New Zealand. These countries accounted for 9 per cent of total flows into developed countries in 1992.

The share of FDI inflows in gross fixed capital formation has more than doubled between 1986 and 1992 (figure I.4). In the early 1990s, that share has been noticeably higher for developing than developed countries. In 1992 it was more than twice as high. By region, the highest shares were found in Latin America and the Caribbean and in Western Asia. In contrast, owing to the

**Figure I.4. The share of foreign-direct-investment inflows in gross fixed capital formation, developed and developing countries, 1980-1992**
(Percentage)




*Source*: UNCTAD, Division on Transnational Corporations and Investment, based on annex table 5.

rapid growth of domestic investments, that share was smaller for South, East and South-East Asia and the Pacific.

The decline in worldwide FDI *outflows* in 1992 to $171 billion (from $232 billion in 1990 and $192 billion in 1991) was mostly in response to the continued recession or slow growth in major home and host countries (see chapter II). Outflows from the five major home countries declined by 10 per cent in 1992 to $113 billion. Notwithstanding that decline, these countries continued to account for two-thirds of worldwide outflows — a share not significantly different from that during the 1980s (table I.6). Large decreases in outflows from Japan — the largest home country in the late 1980s — took place for the second consecutive year and accounted for 65 per cent of the worldwide decline in 1992 (table II.1).

Having declined in 1991, outflows from developing countries increased by 33 per cent in 1992 to reach more than $9 billion (table I.4). As a result, the share of developing countries in world investment outflows in 1992 was over 5 per cent, compared to 2 per cent in the period 1981-1985 and 4 per cent in the period 1986-1991. Almost 90 per cent of these outflows are accounted for by the four Asian newly industrializing economies and China.

The importance of the services sector continued to increase in the early 1990s (table I.7). Services was the largest sector in the outward FDI stock of the five major home countries in the early 1990s, accounting for between 46 per cent and 66 per cent of the total stock compared to between 35 per cent and 53 per cent in the mid-1980s.

As FDI flows were positive, despite their decline, the worldwide FDI stock — a proxy for the productive capacity of TNCs outside their home countries — continued to increase, reaching an estimated $2.1 trillion at the end of 1993 (table I.8).[3] Foreign-direct-investment flows into developing countries have begun to grow significantly faster than their exports of goods and non-factor services, at 17 per cent versus 13 per cent in 1986-1990, and 25 per cent versus 4 per cent in 1991. Furthermore, foreign affiliates of TNCs generated worldwide sales of $4.8 trillion in 1991,

## Table I.6. Outflows of foreign direct investment from the five major home countries, 1981-1993

(Billions of dollars and percentage)

| | 1981-1985 [a] | 1986-1990 [a] | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 b | 1981-1985 [a] | 1986-1990 [a] | 1991 | 1992 | 1993[b] | 1981-1985 [a] | 1986-1990 [a] | 1991 | 1992 | 1993[b] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Country* | *(Billions of dollars)* | | | | | | | | *Share in world total (Percentage)* | | | | | *Annual growth rate (Percentage)* | | | | |
| France [c] | 3 | 17 | 14 | 19 | 35 | 24 | 31 | 21 | 6 | 10 | 12 | 18 | 11 | -17 | 45 | -31 | 29 | -32 |
| Germany | 4 | 16 | 13 | 18 | 29 | 22 | 16 | 17 | 9 | 9 | 12 | 9 | 9 | 13 | 27 | -22 | -29 | 5 |
| Japan [c] | 5 | 32 | 34 | 44 | 48 | 31 | 17 | 12 | 11 | 19 | 16 | 10 | 6 | 8 | 32 | -36 | -46 | -29 |
| United Kingdom | 9 | 28 | 37 | 35 | 19 | 16 | 16 | 26 | 19 | 17 | 8 | 9 | 13 | -2 | 4 | -18 | 1 | 61 |
| United States d | 11 | 22 | 14 | 34 | 24 | 33 | 33 | 50 | 23 | 13 | 17 | 19 | 25 | -5 | 15 | 38 | -0.03 | 52 |
| Total [e] | 32 | 115 | 113 | 151 | 155 | 126 | 113 | 126 | 67 | 68 | 66 | 66 | 64 | -.03 | 23 | -19 | -10 | 11 |

*Source*: UNCTAD, Division on Transnational Corporations and Investment, based on UN-TCMD, 1993b; International Monetary Fund, balance-of-payments tape, retrieved in April 1994; and annex table 2.

a Compounded growth rate estimates, based on a semi-logarithmic regression equation.

b Based on preliminary estimates.

c Not including reinvested earnings. In the case of France, reinvested earnings are not reported after 1982.

d Excluding outflows to the finance (except banking), insurance and real estate industries of the Netherlands Antilles. Also excludes currency-translation adjustments.

e Totals may not add up, due to rounding.

**Table I.7. Sectoral composition of outward foreign-direct-investment stock of the major home countries, various years**
(Percentage)

| Home country | Year | Primary sector | Secondary sector | Tertiary sector | Total |
|---|---|---|---|---|---|
| France | 1987 | 4 | 50 | 46 | 100 |
| | 1991 | 9 | 44 | 47 | 100 |
| Germany | 1985 | 4 | 43 | 53 | 100 |
| | 1992 | 2 | 39 | 59 | 100 |
| Japan [a] | 1985 | 17 | 29 | 52 | 100 |
| | 1993 [b] | 5 | 27 | 66 | 100 |
| United Kingdom | 1984 | 33 | 32 | 35 | 100 |
| | 1991 | 18 | 36 | 46 | 100 |
| United States [c] | 1985 | 15 | 44 | 41 | 100 |
| | 1992 | 7 | 42 | 51 | 100 |

*Source*: UNCTAD, Division on Transnational Corporations and Investment, based on Banque de France, "Note d'information: encours des investissements directs étrangers en France", various years; Deutsche Bundesbank, *Die Kapitalverflechtung mit dem Ausland: Beilage zur Zahlungsbilanzstatistik*, various issues; Japan, Ministry of Finance, *Monthly Finance Review*, various issues; United Kingdom, Central Statistical Office, *Overseas Transactions, 1991* and *Census of Overseas Assets, 1984*; United States, Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, various issues.

[a] Based on notifications. Does not include branches and direct purchase of real estate. Therefore, total does not add up to 100 per cent.

[b] As of September.

[c] Excluding investment stock in the finance (except banking), insurance and real estate industries of the Netherlands Antilles.

compared to world exports of goods and non-factor services of $4.5 trillion ($3 trillion, excluding estimated intra-firm trade, table I.9).[4]

## C. Major factors behind recent trends

### 1. Economic recession and growth

A major factor behind the recent decline in worldwide FDI flows has been the continuing economic recession in the developed countries (UNCTAD, 1993a) — the major home and host countries for FDI in the world economy (table I.10).[5] As studies on the link between FDI and GNP show, the growth of worldwide FDI flows is closely and positively correlated with the changes of global output (UNCTAD-DTCI, 1993a, chapter 4). Outflows from the five largest source countries

**Table I.8. Stock of foreign direct investment, by country and region, 1988-1993**

(Billions of dollars)

| *Region/country* | *1988* | *1989* | *1990* | *1991* | *1992* | *1993* [a] |
|---|---|---|---|---|---|---|
| A. *Outward* | | | | | | |
| France [a] | 51 | 75 | 110 | 130 | 161 | 182 |
| Germany | 104 | 121 | 152 | 173 | 179 | 196 |
| Japan [b] | 110 | 154 | 202 | 233 | 250 | 264 |
| United Kingdom | 185 | 194 | 229 | 232 | 221 | 247 |
| United States [c] | 346 | 390 | 432 | 467 | 489 | 539 |
| **World** | 1 146 | 1 360 | 1 649 | 1 822 | 1 932 | 2 125 |
| B. *Inward* | | | | | | |
| **Developed countries** | 961 | 1 148 | 1 374 | 1 485 | 1 520 | .. |
| Western Europe | 447 | 561 | 745 | 825 | 838 | .. |
| North America | 407 | 472 | 504 | 528 | 541 | .. |
| Other developed countries | 106 | 116 | 125 | 132 | 141 | .. |
| **Developing economies** | 265 | 293 | 330 | 369 | 420 | .. |
| Africa | 33 | 38 | 40 | 42 | 46 | .. |
| Latin America and the Caribbean | 98 | 105 | 116 | 131 | 149 | .. |
| East, South and South-East Asia | 105 | 121 | 143 | 163 | 192 | .. |
| Western Asia | 27 | 27 | 28 | 28 | 29 | .. |
| The Pacific | 2 | 2 | 2 | 3 | 3 | .. |
| **Central and Eastern Europe** | 0.2 | 0.5 | 0.8 | 3 | 8 | .. |
| **World** | 1 226 | 1 442 | 1 705 | 1 856 | 1 948 | .. |

*Sources*: UNCTAD, Division on Transnational Corporations and Investment, based on UNCTAD-DTCI, 1994c and annex tables 3 and 4.

[a] Estimated.

[b] Not including reinvested earnings.

[c] Excluding investment stock in the finance (except banking), insurance and real estate industries of the Netherlands Antilles.

(France, Germany, Japan, the United Kingdom and the United States), which together account for about two-thirds of worldwide outflows, are also correlated with the changes of their domestic output (UNCTAD-DTCI, 1993a, chapter 4; Julius, 1990). A period of slow growth, especially when it coincides with structural problems, tends to decrease profits and therefore limits possibilities of self financing and, in turn, the capability of TNCs to engage in FDI expansion. Instead of undertaking new investments, TNCs engage in internal restructuring with the objective of lowering costs and raising efficiency, the implementation of which becomes more imperative during recessions. Foreign affiliates are also likely to maintain a cautious investment stance because possibilities for approval of new investment or for obtaining funds from parent firms are limited. More importantly, recession means shrinking markets, falling demand and fewer

**Table I.9. Worldwide foreign direct investment and selected economic indicators, 1992, and growth rates for 1981-1985, 1986-1990, 1991 and 1992**

(Billions of dollars and percentage)

| *Indicator* | *Value at current prices, 1992* | *Annual growth rate (per cent)* | | | |
|---|---|---|---|---|---|
| | | *1981-1985* [a] | *1986-1990* [a] | *1991* | *1992* |
| FDI outflows | 171 | 3 | 24 | -17 | -11 |
| FDI outward stock | 2 125 [b] | 5 | 11 | 10 | 6 |
| Sales of foreign affiliates of TNCs [c] | 4 800 [d] | 2 [e] | 15 | -13 | .. |
| Current gross domestic product at factor cost | 23 300 | 2 | 9 | 4 | 5 |
| Gross domestic investment | 5 120 | 0.4 | 10 | 4 | 5 |
| Exports of goods and non-factor services | 4 500 [d] | -0.2 | 13 | 3 | .. |
| Royalty and fees receipts | 37 | 0.1 | 19 | 8 | 5 |

*Source*: UNCTAD, Division on Transnational Corporations and Investment, based on International Monetary Fund, balance-of-payments tape, retrieved in April 1994; UNCTAD-DTCI, 1994c; and unpublished data provided by the World Bank, International Economics Department.

a Compounded growth rate estimates, based on a semi-logarithmic regression equation.

b 1993.

c Estimated by extrapolating the worldwide sales of foreign affiliates of TNCs from Germany, Japan and the United States on the basis of the relative importance of these countries in worldwide outward FDI stock.

d 1991.

e 1982-1985.

profitable investment opportunities (including those for FDI), coupled with heightened competition stemming from a desire to prevent or minimize a fall in profits. In other words, the growth of FDI inflows is also correlated with the growth in domestic output (UNCTAD, 1993a; UNCTC, 1992b).

The impact of cyclical fluctuations in output on FDI flows operates through the interaction of conditions at home and abroad. The latest recession, however, has been confined largely to developed countries. In particular, falling demand as a result of recession led to declining FDI flows into developed countries. In contrast, rapid growth resulting in expanding domestic markets has made developing countries attractive destinations of FDI, especially when their growth performance is compared with that of developed countries. However, cyclical fluctuations in developed countries may have also influenced the growth of export-oriented FDI into developing countries, since some of these exports are directed to the markets of developed countries. But given that investments in developing countries are mostly market-seeking and that intra-regional trade (especially in Asia) has been growing, the impact of cyclical fluctuations in developed countries on investment flows into developing countries has probably been small.

**Table I.10. Growth rates of real gross domestic product, 1988-1993** [a]

(Percentage)

| *Region/country* | *1988* | *1989* | *1990* | *1991* | *1992* [b] | *1993* [c] |
|---|---|---|---|---|---|---|
| **Developed countries** | **4.4** | **3.3** | **2.3** | **0.7** | **1.5** | **1.5** |
| France | 4.5 | 4.1 | 2.3 | 1.2 | 1.6 | - |
| Germany | 3.7 | 3.3 | 4.7 | 1.2 | 2.0 | -0.5 |
| Japan | 6.2 | 4.7 | 4.8 | 4.0 | 1.3 | 1.5 |
| United Kingdom | 4.4 | 2.1 | 0.6 | -2.3 | -0.5 | 1.5 |
| United States | 3.9 | 2.5 | 0.8 | -1.2 | 2.1 | 3 |
| **Developing countries** | **4.4** | **3.5** | **3.4** | **3.4** | **4.9** | **5** |
| Africa | 2.3 | 3.0 | 2.9 | 2.0 | 1.4 | 3 |
| South, East and South-East Asia | 8.5 | 6.1 | 6.4 | 5.3 | 4.9 | 5.5 |
| Western Asia | - | 3.2 | 1.9 | -0.1 | 6.6 | 6 |
| Latin America and the Caribbean | 0.7 | 1.1 | 0.1 | 2.9 | 2.2 | 3 |
| *Memorandum*: | | | | | | |
| China | 10.9 | 3.6 | 5.2 | 7.7 | 12.8 | 11 |
| **Central and Eastern Europe** | **4.5** | **2.1** | **-6.3** | **-9.0** | **-16.8** | **-10** |

*Sources*: United Nations; 1993; annex tables A2, A3 and A4.

[a] Data on regions are weighted averages based on the value of GDP at 1988 prices and exchange rates.

[b] Partly estimated for developed countries and Central and Eastern Europe and preliminary estimates for developing countries.

[c] Forecast, based on Project LINK.

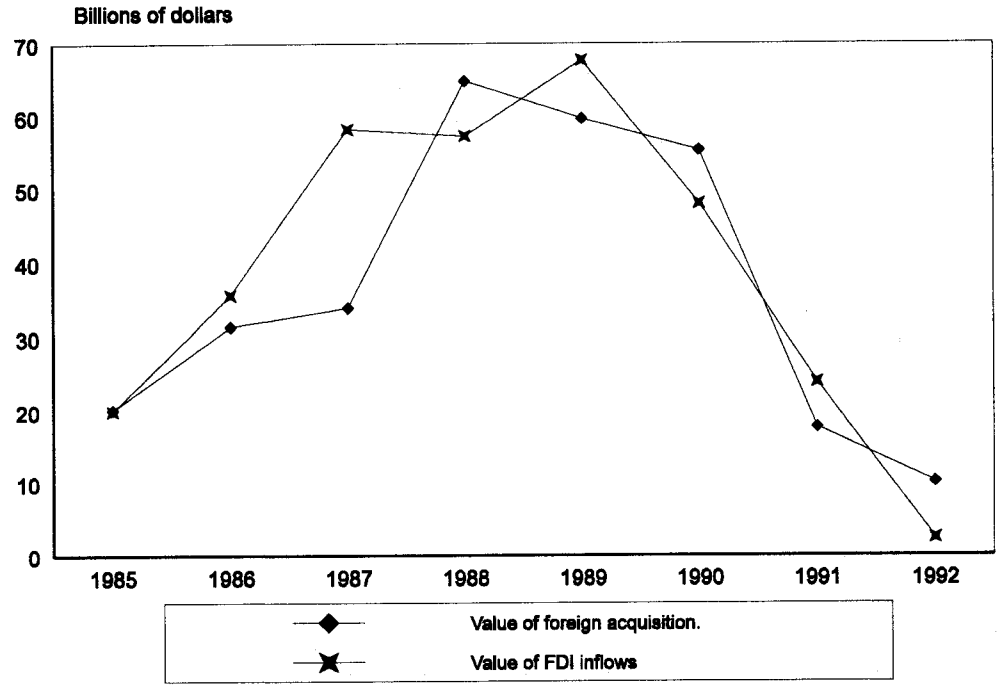
**Table I.11. Value of worldwide cross-border acquisitions and foreign-direct-investment inflows to the developed countries, 1986-1992**

(Billions of dollars)

| *Item* | *1986* | *1987* | *1988* | *1989* | *1990* | *1991* | *1992* |
|---|---|---|---|---|---|---|---|
| Worldwide cross-border acquisitions | 39 | 71 | 113 | 122 | 113 | 50 | 75 |
| FDI inflows to developed countries | 67 | 109 | 131 | 168 | 176 | 121 | 102 |

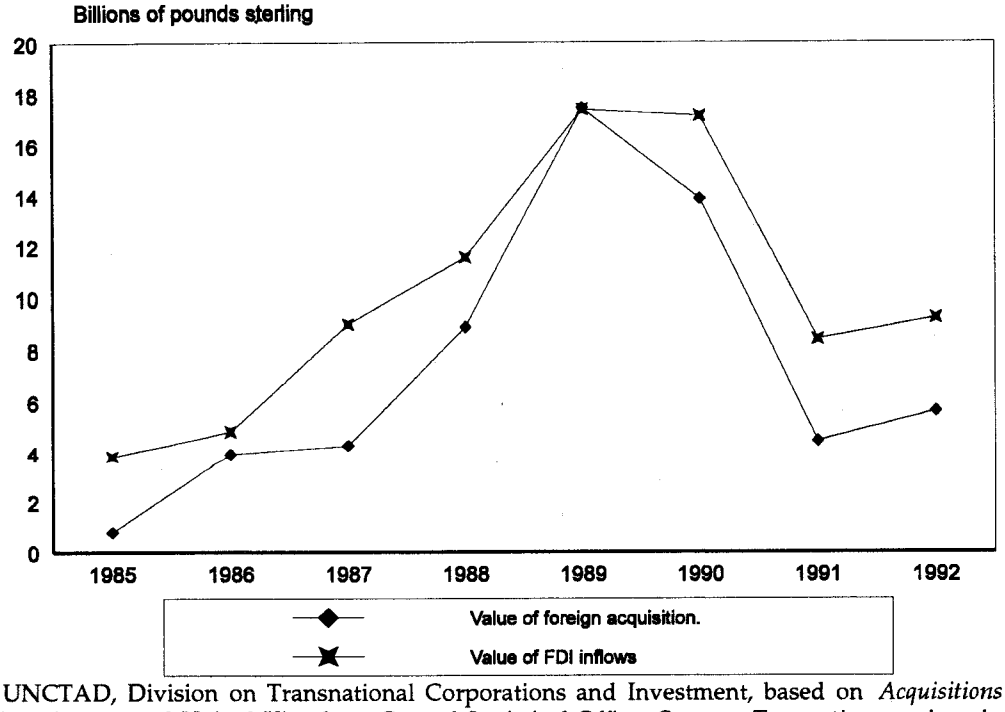
*Source*: UNCTAD, Division on Transnational Corporations and Investment, based on Jungnickel (1993); KPMG, *DealWatch*, various issues; and annex table 1.

**Figure I.5. Foreign acquisitions and foreign-direct-investment inflows in the United States, 1985-1992**



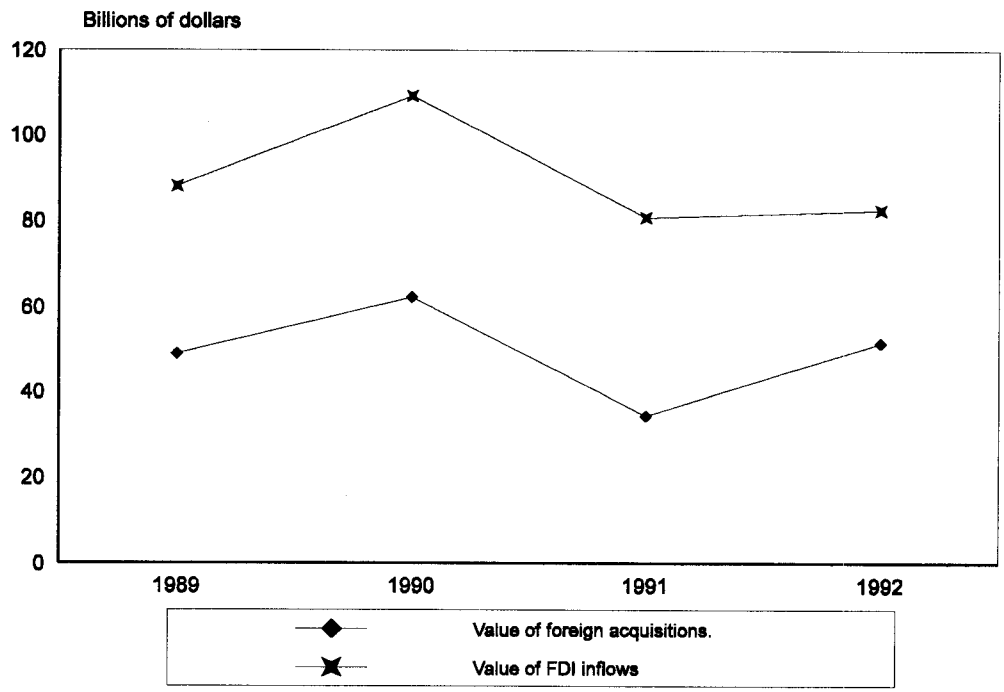

*Source*: UNCTAD, Division on Transnational Corporations and Investment, based on Fahim-Nader, 1992 and Fahim-Nader and Bargas, 1993.

**Figure I.6. Foreign acquisitions and foreign-direct-investment inflows in the United Kingdom 1985-1992**




*Source*: UNCTAD, Division on Transnational Corporations and Investment, based on *Acquisitions Monthly*, various issues; and United Kingdom, Central Statistical Office, *Overseas Transactions*, various issues.

**Figure I.7. Foreign acquisitions and foreign-direct-investment inflows in Western Europe, 1985-1992**




*Source*: UNCTAD, Division on Transnational Corporations and Investments, based on *Acquisitions Monthly*, various issues, and UNCTAD-DTCI, 1994c.

## 2. Mergers and acquisitions

The shift towards more complex corporate strategies (UNCTAD-DTCI, 1993a and chapter III) can lead under certain circumstances to concentration on internal restructuring, which has been partly reflected in a decline of cross-border mergers and acquisitions, a major generator of FDI prior to the recession. The surge in cross-border mergers and acquisitions as an important element of TNC strategies to expand international production was a significant factor in the explosive growth of FDI during the second half of the 1980s. Worldwide cross-border acquisitions accounted for approximately 70 per cent of the FDI inflows to the developed countries during the period 1986-1990; that share was significantly higher in the peak years 1988 and 1989, amounting to 86 and 73 per cent, respectively (table I.11).[6] In 1990, cross-border acquisitions declined by 7 per cent and, in 1991, by 56 per cent, leading to a comparable behaviour in worldwide investment flows. Indeed, growth and decline in worldwide investment flows have seemed to coincide broadly with the boom and decline of cross-border acquisitions.

The link between mergers and acquisitions and FDI inflows can be shown with greater precision for the United States and the United Kingdom as host countries, as well as for Western Europe as a host region. In the United States, the rapid growth in the value of foreign acquisitions between 1985 and 1989 (at an annual rate of 29 per cent)[7] contributed to the growth in FDI inflows (at an annual rate of 29 per cent, figure I.5).[8] Foreign companies acquired 3,643 United States firms between 1986 and 1990, valued in excess of $245 billion, and the bulk of these acquisitions took place in the period 1988 through 1990 (Fahim-Nader and Bargas, 1993). The period from 1990 to 1992 has seen a drastic decline in the values of foreign acquisitions owing to lower investment

outlays by both foreign parent groups — consisting of foreign parents and their foreign (non-United States) affiliates — and existing United States affiliates.[9] The decline in the value of foreign acquisitions in the United States (at an annual rate of 85 per cent) in the period 1990-1992 has been associated with an even more drastic decline in FDI inflows from $48.4 billion in 1990 to $3.4 billion in 1992 (table II.7).[10]

Similar trends are evident in the United Kingdom, when comparing changes in the value of foreign acquisitions and FDI inflows in the periods 1985-1989 and 1990-1992 (figure I.6). The rapid growth in the value of foreign acquisitions in the United Kingdom between 1985 and 1989 (at an annual rate of 70 per cent) has been associated with the rapid growth in FDI inflows (at an annual rate of 39 per cent). Conversely, the significant decline in the value of foreign acquisitions (at an annual rate of 45 per cent) in the period 1990-1992 has been associated with a decline in FDI inflows, but at a slower pace (at an annual rate of 31 per cent).

Analogous trends are noted when examining the value of foreign acquisitions and FDI inflows in Western Europe (figure I.7): both reached a peak level in 1990, declined in 1991 and slightly recovered in 1992, but below the peak level. The declines in cross-border acquisitions in Western Europe were smaller and lasted less than did those in the United States, as companies attempted to strengthen product and market positions prior to the advent of the Single Market programme in the European Union. The implementation of this programme has acted as a factor offsetting negative impact of recession on cross-border acquisition. Over 75 per cent of foreign acquisitions in Western Europe were accounted for by bidder companies coming from within the region.[11]

The boom in cross-border mergers and acquisitions in the late 1980s is best viewed as a strategic and economic response of TNCs to the changing international business environment. Key elements of the international business environment in the 1980s contributing to the boom include globalization and heightened competition; improvements in efficiency; access to expensive technological advances; the Single Market programme of the European Union; financial considerations; and rapid economic growth (table I.12). The first three can be considered as structural factors that are likely to influence positively the continuation of cross-border mergers and acquisitions over the longer term. The last three can be described as short-term factors that help to explain the bulge in FDI flows in the late 1980s.

The decline in cross-border mergers and acquisitions in parallel to that of FDI flows in 1990 and 1991 partly reflects cyclical fluctuations in economic activity: slower economic growth and lower profitability of investments, combined with tighter credit and increasing capital costs, dampened cross-border acquisitions. The aggressive pursuit of mergers and acquisitions by TNCs as an instrument to expand international production in the latter half of the 1980s has been superseded by a greater focus on integration and rationalization of their networks in the early 1990s. However, the continued impact of structural factors is likely to ensure the importance of cross-border mergers and acquisitions as a mode of FDI in the future. Indeed, data for 1992 show signs of recovery (table I.11). [12]

### 3. Privatization

Burdensome public-sector debts, continued poor performance of many State-owned firms, the adoption of market-friendly policies in the 1980s and the desire to attract FDI have led to the implementation of privatization programmes allowing TNC participation in many parts of the world. The number of privatized enterprises worldwide has grown rapidly in recent years, with the value of privatization sales amounting to at least $185 billion over the period 1988 to 1992.[13] Although developed countries began to privatize much earlier than other countries, since the late 1980s the privatization boom has concentrated in the developing world and in the transitional

**Table I.12. The international business environment and mergers and acquisitions in the 1980s**

| Forces driving mergers and acquisitions | Application to cross-border mergers and acquisitions |
|---|---|
| Growing competition, globalization and favourable government policies | To achieve internationalization and geographical market diversification and to increase market share rapidly, firms prefer to engage in mergers and acquisitions as opposed to greenfield investments as a faster way to do so. Merger-friendly government policies encouraged the wave of mergers and acquisitions of the 1980s. |
| Higher efficiency in the face of growing competition and globalization | To achieve scale economies and synergies in value-adding activities, firms build integrated international production networks aimed at improving efficiency of the firm as a whole. Mergers and acquisitions allow the speedy establishment of such networks. |
| Access to technology and reduced costs of research and development | To gain access to new technology, share the risks and costs associated with technology development and reduce the time needed for product innovation, TNCs may acquire firms engaged in research and development or merge with such firms to access their technological capabilities and resources. |
| Response to the Single Market programme of the European Community | The Single Market programme created competitive pressures, as well as opportunities for European Community and third-country firms for mergers and acquisitions aimed at rationalizing production and distribution of goods and services within the European Community and increasing market share. |
| Availability of low-cost financing options available after the financial liberalization of the 1980s in many developed countries | To take advantage of the substantial growth in the availability of credit, innovations in corporate finance and the valuation of many companies below break-up values. |
| New investment opportunities in developed countries during the boom period in the second half of the 1980s | To take advantage of favourable investment opportunities created by economic growth to expand into new markets or activities. Periods of economic growth are also associated with a greater availability of investible funds from corporate profits or loans to finance mergers and acquisitions. |

*Source*: UNCTAD, Division on Transnational Corporations and Investment, based on Hamill, 1993a.

economies of Central and Eastern Europe. In developing countries and transitional economies, the number of privatizations surpassed that in developed countries during the period 1988-1992 and the total sales volume from privatization exceeded that in developed countries for the first time in 1992.[14]

Only few privatizations in developed countries involved complete sales to foreign investors; in certain cases, a portion of the shares of the privatized companies (typically in the range of 15 to 20 per cent) was offered for sale in equity markets abroad.[15] As a result of the greater restrictions imposed by developed countries on foreign participation in privatization programmes, the importance of privatization-induced FDI in these countries has been smaller than in developing countries and Central and Eastern Europe, particularly when compared to the absolute size of FDI.

More privatizations in developed countries are scheduled in the future (proposed sales of State-owned enterprises in Western Europe alone could amount to $150 billion by 1998), in industries such as oil, air transport, telecommunications and utilities, typically considered strategic to the national interest of a number of countries. Although a number of these enterprises are expected to be open to foreign participation,[16] they will probably attract limited FDI because the extent of such participation may be limited or the preferred mode of association with foreign companies may take the form of alliances rather than take-overs.

Of all regions of the world, Central and Eastern Europe has experienced the largest share of FDI from privatization. Over the period 1988-1992, FDI from privatization amounted to over $5.2 billion, or 67 per cent of total FDI inflows to that region (table I.13 and OECD, 1993d).

The privatization of over 400 medium-sized and large State-owned enterprises in developing countries over the period 1988-1992 has generated over $49 billion in total sales. Of these, sales to foreign direct investors were $8.7 billion or about 17 per cent. Foreign direct investment through privatization accounted for about 5 per cent of total FDI flows into developing countries over that period, with marked regional variations (table I.13). Of all developing regions, Latin America and the Caribbean experienced the largest inflow of FDI from privatization (14 per cent of total FDI inflows overall, with much higher shares — nearly 25 per cent — in 1990 and 1991). Other regions had considerably less privatization activity and also considerably lower shares of privatization-associated FDI flows. Generally, for countries that have implemented privatization programmes, the flow of FDI induced through them is determined largely by the overall value and attractiveness of the assets being privatized, restrictions on foreign participation in privatization programmes, the overall investment climate of the country and the presence of fairly developed capital markets.

Beyond bringing in FDI capital directly, privatizations with TNC participation also often entail a commitment by foreign firms to invest additional capital, usually over time, in the acquired assets. Beyond that, by acting as a signalling device to foreign investors of the commitment of host-country governments to economic reform and, in particular, to the role of the private sector in domestic economic activity, privatization programmes can help to attract a continued flow of investments even after the completion of a particular programme (Sader, 1993). Furthermore, increased profitability — due to the expected efficiency gains from the transfer of State-owned enterprises to the private sector — as well as greater competition resulting from the break-up of State monopolies are likely to have a positive impact on the investment climate for FDI. Finally, to the extent that FDI from privatization takes place in infrastructure and finance in developing countries, it is likely to improve conditions for other firms contemplating investments in these countries.

## D. The sustainability of flows into developing countries

The surge in FDI flows into developing countries in the early 1990s raises the question of the extent to which the level or growth rate of these flows can be maintained. Furthermore, the fact that a single country — China — accounted for 55 per cent of the increase in FDI flows into all developing countries in 1992 (and an estimated 51 per cent in 1993) raises the question of whether it should be expected that investment flows into developing countries decline (or that their rate of growth diminishes) if the ability of a few countries to attract FDI abates.

Moreover, in contrast to previous recessions, the recent rapid growth of FDI flows to developing countries has taken place against the backdrop of declining flows to developed countries. (In the early 1980s, FDI flows to both developed and developing countries declined.) The question arises, therefore, of how a recovery in the latter will influence the growth and level of FDI flows in the former. Finally, the fact that the record levels of FDI flows received by

**Table I.13. Foreign direct investment from privatization in developing countries, 1988-1992**

(Millions of dollars and percentage)

| Region | 1988 | 1989 | 1990 | 1991 | 1992 | Cumulative 1988-1992 |
|---|---|---|---|---|---|---|
| **North Africa and Western Asia** | | | | | | |
| FDI from privatization | - | 1 | - | 3 | 22 | 27 |
| Share of total FDI inflows | - | 0.05 | - | 0.21 | 1.01 | 0.29 |
| **Sub-Saharan Africa** | | | | | | |
| FDI from privatization | - | 14 | 38 | 3 | 44 | 99 |
| Share of total FDI inflows | - | 0.4 | 3.7 | 0.2 | 2.7 | 1.1 |
| **East Asia and the Pacific** | | | | | | |
| FDI from privatization | - | - | - | 75 | 302 | 377 |
| Share of total FDI inflows | - | - | - | 0.37 | 1.03 | 0.38 |
| **South Asia** | | | | | | |
| FDI from privatization | - | 0.1 | 11 | 4 | 37 | 52 |
| Share of total FDI inflows | - | 0.02 | 2.0 | 0.9 | 5.8 | 2.1 |
| **Latin America and the Caribbean** | | | | | | |
| FDI from privatization | 214 | 157 | 2 136 | 3 300 | 2 312 | 8 119 |
| Share of totalFDI inflows | 2.4 | 2.5 | 24.7 | 22.0 | 13.1 | 14.3 |
| **All developing regions** | | | | | | |
| FDI from privatization | 214 | 172 | 2 185 | 3 385 | 2 717 | 8 673 |
| Share of total FDIinflows | 0.8 | 0.6 | 6.0 | 8.7 | 5.3 | 4.9 |
| *Memorandum*: | | | | | | |
| **Central and Eastern Europe** | | | | | | |
| FDI from privatization | - | 422 [a] | 489 [a] | 1 917 | 2 411 | 5 238 |
| Share of total FDI inflows | - | .. | .. | 74.7 | 52.5 | 66.8 |

*Sources*: Sader, 1993 and additional information provided by the author; annex table 1.

[a] Foreign direct investment from privatization is larger than the recording of FDI inflow (annex table 1). This is caused by the incomplete coverage of countries in Central and Eastern Europe in FDI inflow data in the balance-of-payments statistics reported by the International Monetary Fund.

developing countries also reflect one-time adjustments to policy changes (e.g., privatization), puts further doubt on their sustainability.

The sustainability of the present level or growth of FDI flows into developing countries depends on the interplay of a number of economic and policy factors, as well as the strategies of TNCs, that lie behind the present trend. Given that FDI has become the most important source of external finance to developing countries, whether or not its flow can be maintained is becoming an issue of greater importance.

## 1. Economic factors

- *Economic growth* of host countries is a principal determinant of FDI inflows (UNCTC, 1992b; UNCTAD-DTCI, 1993b). Rapid economic growth ahead of population growth leads to

increases in per capita income and consumer demand for goods and services that help attract FDI. The estimated growth rates for developing countries as a group in the early 1990s have been the highest of the past decade and well above those for developed countries (table I.10). The 1993 growth rates are especially favourable for South, East and South-East Asia (5.5 per cent) and, notably, China (11 per cent). Although the economic recovery in developed countries currently under way will help them attract considerable FDI flows again, long-term forecasts of economic growth suggest rates substantially higher in developing countries than those in developed countries.[17] Sustaining the current level or perhaps even the rate of increase of investment flows into developing countries will therefore be favourably influenced by the growth prospects of these countries.

- The *size of the domestic markets* of recipient countries is another principal determinant of FDI flows (UNCTC, 1992b; UNCTAD-DTCI, 1993b). Large domestic markets provide new investment opportunities for market-seeking FDI. Transnational corporations establish production facilities in countries with large domestic markets in order to ensure better access and service. Regional integration schemes among developing countries, or between developed and developing countries (e.g., NAFTA) help developing countries, especially small ones, overcome the problem of the small size of their domestic markets, and also encourage efficiency-seeking investments, as TNCs seek to reap the benefits from achieving economies of scale and scope. A number of planned or ongoing regional integration schemes in Asia and Latin America, if they are successful in creating enlarged markets, will work in favour of sustaining the level and growth of FDI flows. And, of course, rapidly expanding domestic markets of middle-income developing countries are, in themselves, a growing attraction to foreign investors.
- Partly as a result of improved economic performances of many developing countries, returns on investments in at least some of those countries have been above average (table I.14). Higher *profitability* sends positive signals to foreign investors regarding expected returns and helps boost future FDI flows. Profitability, however, is also related to factors other than economic performance. For example, risky investments are usually associated with higher expected returns, but riskiness itself might discourage the growth of FDI. This might explain the high profitability of United States FDI in Africa: in spite of it, the flows of FDI to this continent are low. In the longer run, the rate of return on investments in developing countries is expected to be above that in developed countries (Julius, 1993), a factor with a positive influence on the level and growth of FDI flows.
- The availability of *labour* in many developing countries — which, for a given level of productivity typically costs less than in developed countries — may exert a positive influence on labour-intensive, efficiency-seeking FDI. Today, improvements in human resources (undertaken, to a certain extent, by foreign affiliates) have led to the emergence of a highly skilled, low-cost workforce in some developing countries (e.g., the Asian newly industrializing economies and India). Thus, the potential developing-country locations available to TNCs that offer varied combinations of costs, productivity and skills have multiplied. In the past, developing countries attracted mostly low-skill, low-cost labour-intensive activities; now, more and more developing countries can offer a wide-ranging configuration of costs, productivity and skills to attract an expanded set of TNC activities, which can help sustain FDI inflows.
- Improved *infrastructure* allows TNCs to build regionally integrated networks of foreign affiliates and to engage in intra-firm trade and resource flows, and creates channels for the distribution of output. As such, an improved domestic infrastructure helps TNCs organize better their investments within a country or region and allows them to supply domestic, regional or international markets. Intensified efforts by some developing countries (e.g., Taiwan Province of China, Thailand and Chile) to improve their domestic infrastructure

**Table I.14. Profitability of majority-owned nonbank foreign affiliates of nonbank United States parent firms, 1977-1991** [a]

(Percentage)

| *Region/country* | *1977* | *1982* | *1987* | *1988* | *1989* | *1990* | *1991* |
|---|---|---|---|---|---|---|---|
| **Developed countries** | **12.5** | **10.0** | **16.8** | **19.9** | **18.1** | **15.6** | **12.8** |
| Canada | 9.9 | 7.2 | 11.9 | 13.0 | 12.1 | 8.1 | 4.8 |
| Europe | 13.8 | 11.0 | 18.9 | 22.9 | 20.0 | 17.6 | 14.9 |
| Other developed countries | 13.7 | 11.6 | 14.6 | 17.0 | 18.1 | 15.4 | 12.2 |
| **Developing countries** | **23.9** | **14.6** | **12.9** | **14.0** | **17.1** | **15.9** | **13.7** |
| Africa | 33.2 | 10.8 | 14.7 | 22.9 | 20.1 | 22.2 | 22.7 |
| South, East and South-East Asia and the Pacific | 29.9 | 34.2 | 22.3 | 25.4 | 26.8 | 30.1 | 26.0 |
| Western Asia | -54.2 | 28.7 | 8.7 | 11.1 | 9.4 | 19.0 | 16.4 |
| Latin America and the Caribbean | 11.7 | 10.1 | 10.7 | 10.9 | 14.6 | 11.4 | 9.4 |
| **All countries** | **14.6** | **11.6** | **15.3** | **18.0** | **17.7** | **15.7** | **13.0** |

*Source*: UNCTAD, Division on Transnational Corporations and Investment, based on United States, Department of Commerce, Bureau of Economic Analysis, 1992a, 1985, 1981a and *U.S. Direct Investment Abroad: Operations of U.S. Parent Companies and their Foreign Affiliates* (Washington, D.C., Government Printing Office), various issues.

[a] Measured by net income as a share of owners' equity.

(especially transportation and communications), including improvements secured through privatization involving FDI, will play a role in maintaining the level and growth of investment flows.

- Flows of FDI are also related to the movement of *exchange rates* (UNCTAD-DTCI, 1993b). Appreciating exchange rates are usually associated with investment outflows, as companies find it cheaper to acquire foreign assets and are driven to invest abroad in order to raise production efficiency by cutting costs. As a result, more efficiency-seeking outward investments might be expected if a country's currency appreciates *vis-à-vis* the dollar or other major currencies) and domestic costs (translated into foreign currencies) are pushed upwards as a result. To some extent, this is already reflected in the flow of Japanese FDI into Asia in the 1990s: even if the yen does not appreciate further, Japanese TNCs will probably continue to seek to lower production costs and rationalize investments by moving some activities abroad (chapter II). Combined with labour cost considerations mentioned above, this factor is likely to influence positively the growth of FDI flows into Asia.

## 2. Policy factors

- *Private sector development.* The renaissance and nearly universal recognition of the principles of a market-based economy and the changing attitudes of governments towards the private sector form the environment in which investments by private firms, including TNCs, flourish. Government support to the domestic private sector can serve as a magnet to FDI (as for example, in Chile and Mexico). The emergence of domestic suppliers' and distributors' networks comprising private domestic firms that can be linked with TNCs through sub-contracting or other non-equity arrangements can give an additional impetus

to FDI flows into developing countries. In other words, the ability to outsource components or to disseminate output through domestic distribution channels is becoming increasingly important to TNCs, and the private sector of many developing countries has been responsive to such needs. Thus, policies pursued by many developing countries aimed at developing an indigenous private sector will help sustain FDI flows to developing countries.

- *Macroeconomic reform.* Many developing countries have adopted policies to curb inflation (e.g., Bolivia, Chile), service external debt, raise domestic savings and improve their export performance. The continued implementation of sound domestic macroeconomic reforms remains an important factor for the sustainability of FDI flows into developing countries.
- *Liberalization.* The initial jump in FDI flows associated with the opening up of countries (or industries) to FDI, as TNCs seek to exploit first-mover advantages, is typically followed by additional investments, including those in the form of reinvested earnings. Efforts by developing countries to liberalize investment regimes have recently concentrated at the sectoral level, notably on services. The liberalization of services allows TNCs to encompass them into their existing production networks. At the same time, measures to lower foreign-ownership thresholds and allow TNCs into previously restricted resource-extraction and processing industries have been introduced in several developing countries (e.g., petroleum exploration in Mexico, gold mining in China). The liberalization of FDI regimes of developing countries is expected to continue and this will contribute to the sustainability of investment flows. Furthermore, in a world in which FDI, trade and technology are becoming increasingly interdependent, liberalization is also likely to extend beyond investment to include trade and technology frameworks. Such developments are important for the ability of TNCs to integrate their production activities globally or regionally, and this is likely to help sustain FDI flows. The further liberalization and deepening of equity markets in developing countries can help sustain FDI flows by providing an additional source of finance to foreign affiliates and allow TNCs to acquire domestic firms listed in those markets (box I.2).
- *Privatization.* As noted earlier, the one-time investment flows entering countries that have implemented privatization programmes involving FDI, are often complemented by additional inflows to which the initial FDI gives rise, for instance, in the form of reinvested earnings. Furthermore, privatization can trigger additional investment flows by sending positive signals to foreign investors regarding attitudes towards the private sector and TNCs. Embarking on the privatization of State-owned enterprises with FDI participation (e.g., in Africa), or continuing the implementation of existing privatization schemes (in Latin America) may therefore contribute to the sustainability of FDI flows into developing countries.
- *Regional integration.* As already discussed in the context of market size, to the extent that developing countries expand their economic boundaries through participation in regional integration schemes, either among themselves (e.g., Mercosur, ASEAN, the Andean Group) or with developed countries (e.g., NAFTA — and its possible extension to Chile — and APEC), they can create large markets and improve growth prospects. A number of regional integration schemes among developing countries involve a greater commitment by the members and will probably be more successful in attracting FDI than their predecessors. Regional integration schemes can trigger intraregional investments, as well as third-country investments, as the experience of NAFTA has indicated, and thus help sustain FDI into the participant developing countries.

## Box I.2. Emerging markets and the sustainability of foreign direct investment

During the late 1980s and early 1990s, the rapid growth of FDI flows into developing countries has been accompanied by a rapid increase of foreign portfolio investment (table II.11), a development that was triggered by the establishment and growth of capital markets in developing countries open to foreign participation. Portfolio *equity* investment, in particular, which barely existed in the developing countries in the early 1980s, reached $14 billion in 1992 (table II.11) and is expected to increase further in 1993. In fact, this investment, together with FDI, accounted for a sizeable proportion of recent aggregate net long-term resource flows to developing countries (table II.11). The geographical pattern of portfolio equity flows to developing countries, moreover, has a profound similarity to that of FDI. The ten largest developing-country recipients of FDI over the period 1981-1991, with fairly well-developed capital markets that allow foreign participation, are also major recipients of portfolio investment flows. This raises the question of the influence of capital markets on the level and pattern of FDI flows.

The direct impact of stock markets in developing countries on FDI is still small. This can be attributed to a number of factors, including ceilings on foreign ownership and limitations on the types of shares available for sale and industries in which investments can be made. For example, prior approval is often required for the purchase of shares that carry voting rights (an instrument of lasting interest by TNCs over the management of a company that qualifies a foreign investment as direct). The amount of FDI that can be channelled through the local stock markets is also limited by the small number of domestic companies listed in some stock markets (e.g., Barbados, Nepal and some countries in sub-Saharan Africa). Potentially, however, as developing countries are interested in expanding their stock markets (e.g., by increasing the number of listed domestic companies) and continue to relax ownership and other restrictions on foreign investment,[a] the amount of FDI following this route will most likely rise.

Stock markets can help attract and sustain the inflow of FDI to developing countries also in various other ways. To begin with, a series of portfolio equity investments can eventually result in a FDI stake. The emergence of capital markets can encourage FDI by providing a vehicle through which the privatization of State-owned enterprises can take place (as in the case of Telmex in Mexico). In addition, stock markets facilitate mergers and acquisitions of listed domestic companies by TNCs, in particular through the provision of more widely accessible information on listed companies.[b] As a result, TNCs, including small and medium-sized firms with fewer resources, may be in a better position to make well-informed investment decisions than would be possible in the absence of stock markets, although this will also depend on the quality of regulatory and accounting systems. Freer capital markets also facilitate the financial management of TNCs through global diversification of the processes of both investment and the raising of funds. Open equity markets can also help to expand TNC activities in host countries by allowing TNCs that wish to invest in the host country (or expand existing investments) the choice of raising funds locally in addition to raising equity or loan capital from abroad.[c]

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a See Gooptu, 1993. Despite the ongoing liberalization and removal of restrictions on foreign ownership, several developing countries (e.g., Taiwan Province of China) still impose strict limits on foreign participation in domestic stock markets, as well as on the repatriation of dividends.

b The rules of capital markets require the reporting of details on financial performance of listed companies in accordance with transparent accounting regulations.

c Investment financed by foreign affiliates through the local capital market is, however, not recorded in data on FDI inflows or stock of the host country since the investment does not cross national borders and, as such, does not affect the balance of payments. The emergence of capital markets can, of course, increase the amount of FDI flows in the case in which funds raised in such markets are used to finance investments abroad.

### 3. Strategies of transnational corporations

- Pressures from growing international competition are forcing TNCs, including small and medium-sized firms and firms in developing countries, to search for new markets, as well as cost-competitive sites in which to locate production. Transnational corporations are increasingly compelled to locate many of their activities abroad in order to increase the efficiency of production and remain competitive internationally. As the location-specific advantages of host developing countries are increasingly compatible with the strategies pursued by TNCs, there is a greater likelihood that investment flows to these countries will be sustained.

- As a consequence of international competition and in addition to the growing transnationalization, more and more frequently TNCs adopt complex strategies and establish integrated production networks, within a region or globally, facilitated by technological developments (UNCTAD-DTCI, 1993a). Complex strategies of TNCs, offer a wide spectrum of opportunities for attracting FDI (including high value-added investments) that, again, influence the sustainability of FDI flows. Although many developing countries are not yet included in the complex strategies of TNCs, as regional integration schemes with developing-country participation are adopted, the likelihood of being incorporated in such TNC strategies increases.

* * *

The pressures exerted by the interplay of these factors influence the sustainability of the level and growth of FDI flows. Overall, prospects for maintaining FDI flows into developing countries are favourable. The degree of importance and the configuration of the above factors influencing the sustainability of investment flows is likely to vary across developing regions (table I.15). For the countries in South, East and South-East Asia and the Pacific, prospects for sustained FDI flows are very promising given that most factors work in their favour. For Latin America, prospects for sustaining the present growth of FDI flows are also favourable assuming that countries continue to implement sound macroeconomic policies and can maintain economic growth. For sub-Saharan Africa, prospects for FDI are not so favourable, given that most countries in that region have not yet reached a take-off stage of growth, progress in economic reform is slow and the size of domestic markets is small. It must be recognized that, given that economic growth and competitiveness of developing countries are, to a certain degree, themselves dependent on FDI, the sustainability of FDI flows also relies on the activities of existing TNCs.

In addition, factors specific to individual developing countries that are becoming important players in the world economy will influence the extent to which the present growth rate of FDI flows into developing countries will endure. The success of some of the largest recipients of FDI among developing countries that are often among the top ten, for instance, Brazil, China, Mexico and Singapore, to sustain or increase flows of FDI is important in that respect. New entrants will also help maintain the present level or growth of FDI even if flows to traditional recipients decline. For example, even if FDI flows into China slow down, the market of India has yet to be fully tapped.

It is, of course, difficult to predict how and to what extent these factors will materialize, individually or together, especially since some of them have a certain one-off character. In addition, the economic performance of the developed countries — which, after all, continue to be the principal sources of FDI — will exercise considerable influence on future FDI flows. At the same time, however, to the extent that the investments made in developing countries create a growing stock of FDI geared either to the domestic market or, in the context of integrated

**Table I.15. Factors influencing the sustainability of foreign-direct-investment flows to developing regions**

***South, East and South-East Asia***

*Economic factors*

- continued rapid economic growth;
- ability of some major recipients (e.g., Thailand, Taiwan Province of China, China) to overcome infrastructure bottlenecks;
- extent of transnationalization of Asian-based TNCs driven by cost factors or market access, including those from the newly industrializing economies (especially, Singapore), the "second-tier" industrializing economies (Thailand, Malaysia, Indonesia) and China;
- continuous availability of low-cost, productive and increasingly skilled labour;
- economic recovery, coupled with yen appreciation in Japan, the dominant investor in the region;
- ability of China to sustain and India to attract more FDI.

*Policy factors*

- economic reform in the Asian economies in transition;
- further liberalization of FDI and outward-oriented trade policies;
- private-sector support, including that exerted through privatization;
- strengthening regional economic integration (ASEAN, AFTA, growth triangles).

*Strategies*

- regional rationalization and integration strategies of TNCs;
- market penetration.

***Latin America and the Caribbean***

*Economic factors*

- continuous adoption of sound macroeconomic policies, including debt servicing;
- sustaining or improving the present growth performance;
- improving infrastructure;
- growth of intra-regional FDI;
- ability of Argentina, Brazil, Chile and Mexico to sustain or attract more FDI.

*Policy factors*

- ongoing implementation of privatization schemes;
- strengthening regional integration (NAFTA, Mercosur, Andean Pact).

*Strategies*

- regional rationalization of production in response to integration;
- market penetration.

***Africa***

*Economic factors*

- further diversification of the production structure towards manufacturing and services;
- ability to enlarge markets and foster high growth rates;
- improving infrastructural facilities, including improvements obtained through official financial assistance;
- ability of South Africa to become an investment pole for sub-Saharan Africa.

*Policy factors*

- adoption of macroeconomic reforms, including alleviating the debt burden;
- further liberalization of FDI and related regimes, including those in the primary and services sector;
- introduction and expansion of privatization programmes.

*Strategies*

- extent to which based TNCs in the European Union integrate North Africa into their regional production networks.

*Source*: UNCTAD, Division on Transnational Corporations and Investment.

international production, towards regional or global markets, stable ties with host developing countries are established which have, to a certain extent, a self-perpetuating nature (e.g., through reinvested earnings).

## Notes

1 When comparing asset values between different years, the changing membership of the list of the top 100 should be taken into account. Between 1989 and 1992, 19 companies exited the list owing mostly to mergers, acquisitions and divestitures. They are: Allied-Lyons (United Kingdom), the BOC Group (United Kingdom), Canadian Pacific (Canada), Foster Brewing (Australia), Northern Telecom (Canada), Ferruzzi Montedison (Italy), SCA (Sweden), SKF (Sweden), L'Air Liquide (France), Ahod (Netherlands), Hoogovens (Netherlands), Pirelli (Italy), Schlumberger (United States), The Sun Company (United States), Trizec (Canada), Union Carbide (United States), Groupe Bull (France), Générale des Eaux (France), Mannesmann (Germany). The new entrants included: Hanson (United Kingdom), Ericsson (Sweden), Sara Lee (United States), Roche (Switzerland), ENI (Italy), Petrofina (Belgium), Usinor-Sacilor (France), Holderbank (United Kingdom), Sharp (Japan), Hitachi (Japan), Fletcher Challenge (New Zealand), Stora, (Sweden), BMW (Germany), International Paper (United States), NEC (Japan), Neste (Finland), Lyonnaise des Eaux (France), Nissho Iwai (Japan) and Pepsico (United States).

2 Over half of the growth of flows into developing countries in 1992 and 1993 was accounted for by China where inflows in 1992, at almost $11.2 billion, increased more than two-and-one-half times over their 1991 level. In 1993, inflows to China were $26 billion — more than double their 1992 level. But even the exclusion of China in FDI inflows to developing countries in 1992 and 1993 shows a growth rate of FDI inflows in developing countries of 16 per cent in 1992 and 35 per cent in 1993.

3 The growth rate of worldwide exports of goods and non-factor services refers to 1991. In SDR terms, the rate of annual growth of worldwide outflows, gross domestic product, gross domestic investment, exports of goods and non-factor services, sales of TNCs and royalty-and-fees receipts during the period 1986-1991 were 14 per cent, 6 per cent, 6 per cent, 7 per cent, 9 per cent and 15 per cent, respectively. Hence, in SDR terms, worldwide outflows increased more than one-and-a-half times as fast as worldwide exports of goods and non-factor services, more than twice as fast as worldwide gross domestic product and gross domestic investment and considerably faster than royalties-and-fees receipts. Worldwide sales of TNCs grew one-and-a-half as fast as worldwide gross domestic product and as fast as worldwide exports of goods and non-factor services.

4 In the *World Investment Report 1993*, it was noted that the worldwide sales of foreign affiliates of TNCs in 1990 were $5 trillion. The fact that these sales declined to $4.8 trillion in 1991, despite the increasing productive capacity of TNCs indicated by FDI stock, can be explained by economic recession or slow growth in the developed countries (the major host countries for FDI) that resulted in significantly lower sales by foreign affiliates.

5 The growth of cumulative outflows of the five major home countries over 1970-1991 has been found to be explained largely by growth of their domestic output over the same period, as seen in the estimated regression equation FDI = -55.5 + 4.2 (GNP) (R2 = 0.89). The impact of business cycles on FDI on both the demand and supply side is further explained in UNCTAD-DTCI, 1993a.

6 Data on cross-border acquisitions reported here include all investments that result in the investor, located in one country, to hold more than 50 per cent of the outstanding voting securities of a business located in another country. Only general comparisons between cross-border acquisitions and FDI flows can be made. Calculating the value of cross-border acquisitions as a share of FDI inflows can be misleading for at least two reasons. First, data on the value of cross-border acquisitions reported here do not include FDI through reinvested earnings in a host country, nor do they include cross-border acquisitions that lead to minority stakes and joint ventures. The underreporting of the value of cross-border mergers and acquisitions resulting from that could lead to an underestimation of their share of FDI inflows. Second, where cross-border acquisitions or takeovers proceed in incremental stages and do not lead immediately to the threshold equity share of 10 per cent that is required to qualify as FDI, they are recorded as portfolio investments. However, subsequent investments that may lead to the attainment of the threshold value may not be recorded as FDI. The resulting underestimation of actual FDI implies that taking the value of cross-border acquisitions as a share of FDI could lead to an overestimation of their share.

7 Compounded growth rate estimates, based on a semi-logarithmic regression equation, are used in this chapter for annual growth rates of more than one-year period.

8 Although the value of FDI inflows in the United States started to decline in 1990, the value of foreign acquisitions began to decline in 1989.

9 Between 1991 and 1992, investment outlays of foreign parent groups to acquire *or* establish United States business enterprises declined faster than investment outlays of existing United States affiliates of foreign-based parent firms. Thus, foreign parent groups spent $14.1 billion (55 per cent of total investment outlays) to acquire or establish business enterprises in the United States in 1991; by 1992, that amount had declined by almost half to $7.2 billion (53 per cent of total investment outlays). See Fahim-Nader and Bargas, 1993.

10 The fact that the rates of growth (or decline) of cross-border acquisitions and FDI inflows are not similar in orders of magnitude is indicative of the fact that there are other determinants that influence level of FDI inflows. This suggests that an analysis of the association between cross-border acquisitions and FDI flows is useful only to the extent that it illustrates similar directions of change.

11 Data obtained from *Acquisitions Monthly*, various issues.

12 See KPMG, 1992. There are also preliminary indications that cross-border acquisitions have risen up in 1993, especially for firms in the United Kingdom. These firms spent $7.4 billion acquiring European firms in a surge of outward investments in the first 10 months of 1993 — an amount that was two-thirds higher than that in the same period of 1992. The increase in cross-border acquisition activities by these firms is largely due to their strengthened financial positions, combined with a gradual economic recovery of the United Kingdom and a lingering recession in most other countries of the European Union. See Michael Cassell, "UK spending on takeovers in EC surges", *Financial Times*, 8 November 1993.

13 Not included are privatization in the former German Democratic Republic which generated a sales volume of $25 billion and an additional $106 billion in investment commitments between 1990 and end-1992. See Sader, 1993.

14 Africa is the only region where full-scale privatizations have hardly begun. See Sader, 1993 and "Selling the state", *The Economist*, 21 August 1993.

15 Such was the case with the privatization of British Telecommunications PLC, in which a minority of the shares was offered in the equity markets of Canada, Japan and the United States. See Odle, 1993.

16 "Selling the state", *The Economist*, op. cit..

17 The World Bank, 1994, forecasts growth rates of 4.8 per cent and 2.7 per cent for the rest of the decade for the developing and developed countries, respectively.