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FOREIGN DIRECT INVESTMENT AND TRANSNATIONAL CORPORATIONS IN SERVICES

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FOREIGN DIRECT INVESTMENT AND TRANSNATIONAL CORPORATIONS IN SERVICES

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Preface

One of the most striking features of the global economy in the 1980s has been the increasing recognition of the importance of services in economic development, international trade and international direct investment. The growing interest in services has resulted not only from the realization that, today, the services sector is the largest economic sector and the most important source of new jobs in many countries, but also because the Uruguay Round of Multilateral Trade Negotiations has focused the attention of policy-makers on this sector. Since the beginning, these negotiations have acquired a scope well beyond what has been traditionally understood by crossborder trade, mainly because the majority of services are not tradable and can enter international transactions only through sales of affiliates established abroad by transnational corporations or by the movement of people (as providers of services) across borders. The negotiations have also stimulated a closer look at the efficiency of the services sector in the domestic economy and its role in development and the activities of transnational corporations in services.

The purpose of this publication is to contribute to a better understanding of the international activities of transnational corporations in services and thus to assist Governments to cope better with a phenomenon of utmost importance to development and economic policies, both at the national and international levels. This publication deals not only with foreign direct investment and transnational corporations in services but also provides a theoretical explanation of forces determining the transnationalization of service firms and industries. Further, it attempts to evaluate the potential contributions transnational service corporations can make to the services sector and economies of host countries, and it reviews established policy patterns towards transnational service corporations.

Given the scarcity of data and literature on the subject, many of the conclusions of the study, particularly those concerning the impact of transnational service corporations and the pattern of policies, are tentative. Considerably more research is needed to understand more fully the nature and magnitude of the impact of these corporations. For this reason, this publication is meant to stimulate discussion and further research rather than provide ready answers. Since the Centre is continuing its work in this area, any feedback and constructive criticism would be greatly appreciated.

This publication is based on the chapters dealing with services in *Transnational Corporations in World Development: Trends and Prospects* (United Nations publication, E.88.II.A.7), recently published by the Centre.

Contents

Boxes

Text Figures

Text Tables

Explanatory notes

The term "country" as used in the text of this study also refers, as appropriate, to territories or areas.

For analytical purposes, the following country classifications have been used:

Socialist countries:
Eastern Europe and Union of Soviet Socialist Republics

Developed market economies:
North America, Southern and Western Europe (excluding Cyprus, Malta and Yugosolavia), Australia, Japan, New Zealand and South Africa

Developing countries:
Latin America and the Caribbean, Africa (other than South Africa), Asia (excluding Japan), Cyprus, Malta and Yugoslavia

The designations of country groups in the text and the tables are intended solely for statistical or analytical convenience and do not necessarily express a judgement about the stage of development reached by a particular country or area in the development process.

The following symbols have been used in the tables:

Two dots (..) indicate that data are not available or are not separately reported. Rows in tables have been omitted in those cases where there are no data available for any of the elements in the row;

A blank in a table indicates that the item is not applicable.

A dash (-) or a zero (0) indicates that the amount is nil or negligible.

A slash (/) indicates a financial year, e.g. 1986/87.

Use of a hyphen (-) between dates representing years, for example, 1985-1987, signifies the full period involved, including the beginning and end years.

Reference to "dollars" ($) means United States dollars, unless otherwise indicated.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

Details and percentages in tables do not necessarily add to totals because of rounding.

Abbreviations

ASEAN	Association of South East Asian Nations
ECLAC	Economic Commission for Latin America and the Caribbean
EEC	European Economic Community
ESCAP	Economic and Social Commission for Asia and the Pacific
FDI	Foreign direct investment
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GNP	Gross national product
ILO	International Labour Organisation
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
R&D	Research and development
TNC	Transnational corporation
TNB	Transnational bank
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Centre on Transnational Corporations
UNIDO	United Nations Industrial Development Organization

INTRODUCTION

Like goods, services embrace a diverse set of activities with different production processes, technologies, marketing methods and distribution channels, and they involve a wide range of suppliers and customers. No commonly accepted definition of services exists, neither for the calculation of national accounts nor for the measurement of international transactions. Nevertheless, there is no disagreement that services include such activities as wholesale and retail trade, transportation, communications, banking, finance, insurance, data services, hotels and restaurants, real estate, business services, professional services, community services (including public administration and defence), social services (including education and health services) and personal services (such as repair or laundry services). Services have certain characteristics in common which make it possible to analyse them as a whole, instead of considering them only as separate activities. The most important of these characteristics is that of intangibility, that is, most services cannot be stored. That basic characteristic requires that, unless embodied in goods, the production and consumption of services must occur at the same time and in the same place. In a sectoral classification of an economy, service activities are, by convention, referred to as the "tertiary" or "services" sector. (The box on the next page elaborates on some of these matters.)

The *share* of services in a country's gross national product (GNP) primarily depends on:

- The level and pattern of demand for intermediate or producer services, that is, services that are sold to other producers for further value-adding activities;
- The level and pattern of demand for final (that is, consumer) services;
- The extent to which services enter into the exchange economy;
- The length of the value-added chain in the production process and the role of services in that production;
- The organization of the production of services, for example, between specialist service companies and non-service companies;
- The economic structure of a country, that is, the types of goods and services produced and the way in which they are produced; this, in turn, depends on the indigenous resources available and the system for organizing their improvement and deployment; and
- The state of technology in supplying services.

The *growth* of the share of services in GNP and employment reflects a combination of both demand and supply-led forces. These include:

- The increasing role of intermediate or producer services in the value-added process. Advances in technology, in particular, have helped firms to incorporate new data-based services within their own structures and to diversify the services they are able to offer to their customers;
- The growth of per capita output and the high income elasticity of demand for at least some discretionary consumer services (particularly in industrialized countries);
- The increasing tendency of firms in non-service industries to externalize certain service activities (for example, accounting, transport, business consultancy);
- The growing importance of marketing, distribution and after-sales maintenance and servicing activities in relation to the value of a physical product (for example, a copying machine, an aircraft, a power station);
- The increasing role of the state in providing or encouraging the production of intermediate services (for example, education and telecommunications), final services (for example, health), and services directly related to governance (for example, civil service, tax collection, social security);
- The growth of finance, banking, legal, insurance, transport and other support services necessary for the efficient functioning of modern society; and
- The emergence of new intermediate markets for services (for example, the Euromarket, reinsurance, securitization, new forms of data transmission).

As a *result* of the combination of those forces, the share of services in GNP has increased over the past decade or so in virtually all developed and two thirds of the developing countries for which data are available. By the mid-1980s, the services sector accounted for more than half of the GNP of all developed market economies, and it was the single largest sector in most developing countries. This secular structural change raises important questions about the implications which the growth of the services sector has for national economic activities and future economic growth. Developing countries, in particular, have to consider the consequences of this fundamental shift for their development strategies; UNCTAD has undertaken considerable work in that respect.

Not surprisingly, this sectoral shift has also affected the structure of international transactions. During the mid-1980s, trade in services comprised about one fifth of the total world exports of about $2 trillion; and more than half of the annual FDI flows of about $50 billion involved service transactions. In fact, approximately 40 per cent of the world's FDI stock (that is, about $300 billion) was

in the services sector. Since the share of services in GNP appears to have increased at a slower rate than the share of services FDI in total FDI, the role of foreign service affiliates in the domestic sector of a number of countries has also increased.

For a number of reasons, services play an important role in the economic development of any country:

- *Infrastructure*. Services such as transportation, communication, banking, education, health and utilities are part of a country's basic infrastructure. The possession of many of these services is a prerequisite for economic development.
- *Interlinkages,* especially through (producer) services providing intermediate inputs into the production of goods or other services. Some of the services already mentioned under the heading "infrastructure" fall into this category as well. Also important are such services as insurance, trading, data services, accounting, research and development, engineering, construction, legal services and advertising, all of which provide important intermediate inputs as producer services. Their availability and sophistication affect economic competitiveness through their interaction with industrial activities and other services.
- *Strategic significance* for the economy. Some services, such as banking and finance, in general, are considered by many countries as being central to economic growth and development. Without control over such instruments of macro-economic policies, these countries feel handicapped in the management of their economies.
- *Structural adjustment*. In a number of countries, especially those that are competitive in international transactions, service industries are considered as one of the prime sources of growth and structural adjustment to replace declining industries.
- *Socio-cultural impact*. Services such as the mass media, advertising, education, publishing, and tourism have a socio-cultural dimension through which attitudes, behavioural patterns and consumption patterns are influenced.

Many services belong in several of those categories, but most of them have in common that they serve important functions in any economy, at whatever level of development. Their efficient provision, domestically or internationally, ought to be, therefore, a matter of considerable concern.

In spite of its importance, the services sector has been generally neglected in academic research and public policies. Thus, for instance, established micro-economic theories have been formulated primarily with a view to explaining the production and consumption of goods, not of services; economic development is primarily perceived as primary and secondary industrialization; and international trade theory focuses mainly on trade in goods. Similarly, sectoral empirical studies on agriculture, mining and manufacturing abound, while few such studies exist for the services sector as a whole; and most empirical studies on trading patterns concern themselves with the exchange of goods rather than services. In the area of public policy, debates in some "industrial" countries focus on the need for "re-industrialization" as a cure for economic decline, while an international policy framework for trade exists only for trade in goods, and not in services. Neither is research on FDI and TNCs exempt from this pattern. The majority of the voluminous literature in this field gives the impression that TNCs are mainly industrial enterprises. Similarly, most of the theories of international production are geared to explaining the production of goods.

This picture is, however, changing. Partly this is because there is an increasing recognition of the importance of the services sector as such; and partly it is because the negotiations in the Uruguay Round of Multilateral Trade Negotiations aim at establishing an international framework for trade in services. It is this latter development, in particular, which has created an urgent need for a better understanding of the role of this sector in world economic development. As a result, an increasing number of researchers and policy-makers have begun to analyse various aspects of the services sector as a whole, and especially the characteristics, determinants and implications of services in international transactions. In this context, the intangible and non-storable nature of most services makes FDI particularly important because, in contrast to goods, many services can be delivered to foreign markets only if they are produced in those markets by foreign affiliates. This distinctive feature (and the crucial question of the boundary line between trade and FDI in services) suggests that there are special reasons for dealing with FDI in services. The relative importance of TNC activity in services, and the fact that services investment is often closely associated with trade and FDI in goods, reinforces the need for a closer look and detailed analysis of FDI and TNCs in services.

In the light of these considerations, this study addresses the following interrelated questions:

- To what extent has FDI in services grown, how have the various geographical regions participated in this growth, what are the service industries in which FDI is most

Things one can buy and sell, but not drop on one's foot

This description of services (by The Economist) focuses on the most common attribute used to delineate services: their intangibility (as opposed to the tangible nature of goods). Earlier descriptions considered services as a residual, that is, economic activities other than agriculture, mining and manufacturing. With the growing interest in services, there has been a proliferation of proposals of definitions and typologies of services. So far, however, none has been able to provide a universally accepted theoretical and operational framework to distinguish clearly services from other activities.

Definitional disputes notwithstanding, when it comes to identifying service industries, there is surprisingly little controversy in regard to most of the activities which comprise the domestic services sector, even if some of them are not included in the national accounts of some countries. These activities are grouped by the United Nations International Standard Industrial Classification (ISIC) of all economic activities in four major divisions (numbers 6 through 9) and include the following items:

Wholesale trade
Retail trade
Restaurants and hotels
Transport (railway, urban, other land, pipeline, water, air etc.)
Storage and warehousing
Communications
Financial institutions (banks and other institutions providing financial services except for insurance companies)
Insurance
Real estate
Business services (including legal services, accounting and auditing; data processing; engineering, architectural and technical services; advertising; other business services, such as credit-rating agencies, employment agencies; news-gathering and reporting agencies, business management and consulting services; fashion designers; detective agencies and protective services)
International and extra-territorial bodies (including international organizations, foreign embassies and other extra-territorial units)
Machinery and equipment rental and leasing
Public administration and defence
Sanitary and similar services
Social and related community services (including education services; research and scientific institutes; medical, dental, other health and veterinary services; business, professional and labour associations; religious organizations)
Recreational and cultural services (including motion picture production, distribution and projection; radio and television broadcasting; theatrical producers and entertainment services; all other amusement and recreational services)
Personal and household services (including repair services, laundry and cleaning services, social escort services and shopping services)

dynamic, and how important is FDI compared to trade in delivering services to foreign markets? (chapter I).

- Who is responsible for this growth, that is, which firms invest in services activities abroad, where do they invest, how transnationalized have they become, and what organizational forms do they utilize? (chapter II).
- Why has FDI in banking and finance grown more rapidly than FDI in other service industries, why have transnational banks and non-bank financial companies emerged as particularly important TNCs and what concerns and issues have arisen from the dramatic change in international financial markets and from the new role of transnational banks? (chapter III).
- Why have the activities of services TNCs and FDI in services grown? (chapter IV).
- Why does the growth of FDI and TNCs in services matter, that is, what impact does it have on host countries, especially developing ones? (chapter V).
- What are the policies of developed and developing countries concerning FDI and TNCs in services and what policy implications does the growth of FDI in services have? (chapter VI).

Given the less than satisfactory state of statistics and the neglect of this subject in the literature, this section is only a first attempt to deal with FDI and TNCs in services. However, it is hoped that it provides an overview of the issues to be considered,

Normally, furthermore, construction and public utilities (electricity, gas and water supply) are included; but, since they are partly quite tangible, there is no firm consensus on this. The same applies to public administration and defence, especially for analyses which focus on marketable services. This study includes construction and public utilities.

The test of tangibility does not allow for a clear distinction between goods and services in other cases as well. Convention often plays a determining role. For example, meat consumption in restaurants is not separated from restaurant services; conversely, repair services under warranty are not separated from the purchase price of a television set. Conventions are, of course, subject to change. The newly proposed ISIC revision suggests a reclassification of publishing activity from manufacturing to service activities, with the effect that books will become an output of a service activity, as is already the case with motion pictures and photographs.

Depending on analytical needs, services can be grouped or disaggregated in a variety of ways, on the basis of different criteria. For instance, a distinction can be made between market (profit-oriented) and non-market services (for example, administration). Services can also be categorized through their relationship with goods: embodied in goods, complementary to trade in goods, substituting for trade in goods and traded without relationship with goods. UNCTAD, in an attempt to analyse the role of services in the development process, distinguishes between producer services, distribution services, and social and personal services and focuses its analytical effort on the role of producer or business services. Other institutions or authors offer still other typologies of services. Since, like goods, the same service can perform a variety of functions, no grouping is free of some inconsistencies and overlap.

When it comes to the delineation of the services sector in the flows or stocks of FDI, the problems are, in principle, similar to those with the classification of services in the domestic economy. If a foreigner invests in a transportation company, this is FDI in services. If it is a construction company, it depends on whether construction is considered to be a service or not.

Different problems (not dealt with in this study) relate to the definition of trade in services. They are, however, worth mentioning since one of them concerns the boundary line between across-the-border trade and FDI-related transactions (sales of foreign affiliates, income on FDI and non-equity forms of FDI).

stimulates further research and encourages Governments to examine these issues more closely from the point of view of policy implications.

I. FOREIGN DIRECT INVESTMENT IN SERVICES

A. The growing importance of foreign direct investment in services

The sectoral composition of international direct investment has undergone a radical transformation during the past two decades: measured on the basis of FDI stocks and flows (for alternative measures see box I.1), FDI during the 1950s was primarily concentrated in raw materials, other primary products and resource-based manufacturing; today it is mainly in technology-intensive manufacturing and services. By the mid-1980s, about 40 per cent of the world's total FDI stock of about $700 billion (about $300 billion) was in services, compared to approximately one quarter at the beginning of the 1970s and less than 20 per cent in the early 1950s. Moreover, FDI in services has increasingly become the most dynamic part of the growth of FDI in general. During the first half of the 1980s, more than half of total investment flows of about $50 billion annually were in the services sector, of which no less than two thirds were in finance- and trade-related activities. All indications are that the momentum of growth in services will be maintained or even increased during the remainder of the 1980s.

As with FDI data in general, those figures should be taken as indicators rather than precise measurements of the importance of the activities of TNCs. Apart from a host of statistical difficulties typical for most FDI statistics (UNCTC, 1987a), a number of other factors have to be taken into account:

- Non-equity contractual relations are particularly important in a number of service industries, such as hotels, fast-food restaurants, accounting and engineering and construction management. The activities associated with them are not reflected in FDI statistics.
- TNCs in the industrial sector, when investing abroad, normally have to replicate at least truncated production facilities if they want to produce abroad. [1] For service TNCs (especially when communication and public utilities are excluded), this is not always necessary and, with the growing application of data services, it has become even less so. For instance, representative offices of banks, agencies of insurance or travel companies and affiliates of wholesale trading firms are often mere outposts or brokers which are linked to the infrastructure of their parent corporations in the home country, where the largest portion of the value-added activity takes place. This configuration is not captured by FDI statistics.
- Since the output of most service industries is intangible, it is more difficult to know where its production actually takes place than it is for manufacturing or primary product industries. That characteristic makes it relatively easy for firms to separate the location of the investment from the location of production. Thus, large investments in tax havens or countries offering flags of convenience may only be nominally located there; they do not necessarily mean that much service production is taking place in those countries. These data may, therefore, be misleading.
- Many TNCs which are classified as industrial firms in fact undertake in-house service activities as, indeed, might their foreign affiliates. [2] Examples include companies which have their own banking and finance facilities, transportation systems, after-sale service networks and data-processing facilities. To the extent that those activities are not organized as separate economic activities, it usually leads to overreporting for industrial FDI and underreporting of services.
- On the other hand, services FDI statistics may include data on holding companies, many of which engage in primary or secondary industrial activity abroad. Moreover, some foreign service affiliates also undertake some industrial activities. Finally, it should be noted that some countries lump certain non-services FDI (for example, in mining and/or agriculture) together with services FDI, especially when reporting country/industry cross tabulations. All these practices lead to overreporting for services FDI and underreporting of industrial FDI.

The relative importance of these various factors cannot be ascertained, but they underline that all

1 This is not meant to say that *all* industrial FDI requires the full reproduction of the production apparatus abroad. Assembly operations, for instance, often require only a minimum amount of investment.

2 This phenomenon is very well known in the domestic context, where many service activities are being undertaken by industrial companies, and reported as part of industrial activities.

Box I.1 Measuring the importance of foreign direct investment in services

The measures used in this study to indicate the importance of the services sector -- FDI stocks and flows -- are not the only ones which can be used for this purpose. Since there can be considerable variations among sectors (and, indeed, among industries) in the ratios of FDI stock to assets, output and employment, the use of other variables can alter the picture considerably. In the case of the United States (the only country for which detailed data are available), the use of the asset variable increases the share of service affiliates in all affiliates to 69 per cent (compared to 37 per cent as measured by FDI stock); the use of the employment variable, on the other hand, yields a share of service affiliates of only 26 per cent (see accompanying table). Asset shares are largely influenced by banking affiliates, which alone account for 43 per cent of the assets of all foreign affiliates. On the other hand, banking affiliates weigh very little in terms of employment, value-added and FDI stock among all affiliates. Perhaps most importantly, measurements based on sales and value-added are quite consistent with the FDI measurement, with the former being somewhat higher and the latter somewhat lower than the FDI ratios.

Alternative measures for the share of services in the total outward FDI of the United States, 1982

	Assets	*Sales*	*FDI stock*	*Employment*	*Value-added* [a]
	(Billions of dollars)			*(Thousands)*	*(Billions of dollars)*
1. All foreign affiliates	1 349	1 027	207	6 816	185
2. Service affiliates	922	458	77	1 786	58
2 as per cent of 1	69	45	37	26	31
3. Banking	574	87	10	159	7 [b]
3 as per cent of 1	43	9	5	2	4
4. Services other than banking	349	370	67	1 627	51
4 as per cent of 1	26	36	32	24	27

Source: United States, Department of Commerce, *US Direct Investment Abroad: 1982, Benchmark Survey Data* (Washington, D.C., Superintendent of Documents, 1985).

a Net income, employee compensation and foreign income taxes.
b Net income and employee compensation only.

Since data on FDI stocks and flows are the only data which are regularly compiled by a large group of countries, they are the most commonly used. However, it should be emphasized that they are a measurement of the foreign ownership of assets and capital flows, and not of the control of those assets and flows. They omit, for example, the share of joint-venture partners and borrowing from local or international markets. Perhaps the best variable to measure the importance of TNCs would be the value-added of the affiliates controlled by these corporations -- but no systematic data on this variable are available.

statistics on services have to be interpreted with caution and can be taken only as approximations. They also emphasize the need to distinguish between FDI in services and the activities of service TNCs.

Finally, it is important to note that the rapid increase of FDI in services is part and parcel of the more general process of the internationalization of business activities. The internationalization of industrial activity through trade and FDI required

Table I.1 Outward stock of foreign direct investment in services, selected developed home countries, by descending order of share in services, various years
(Value and percentage)

Country and currency	Year	Value		Share of services in total FDI (Percentage)
		Total FDI	FDI in services	
Spain	1975	24.9	12.3	49
(Billions of pesetas)	1980	95.5	46.2	48
	1984	283.7	184.3	65
Japan	1965	0.9	0.2	25
(Billions of dollars)	1970	3.6	1.4	38
	1975	15.9	5.8	36
	1977	22.2	7.9	35
	1980	36.5	14.0	38
	1985	83.6	43.4	52
	1986	106.0	60.6	57
Austria	1979	6.8	3.7	54
(Billions of schillings)	1982	11.3	5.9	53
Germany, Federal Republic of [a]	1966	10.6	1.1	10
(Billions of deutsche mark)	1976	49.1	20.0	41
	1980	84.5	36.2	43
	1984	145.4	68.0	47
	1985	147.8	70.3	48
Australia	1978	1.4	0.7	47
(Billions of Australian dollars)	1983	3.4	1.6	47
Finland [b]	1975	1.2	0.2	14
(Billions of markkaa)	1980	2.8	1.0	35
	1985	10.6	4.6	44
	1986	14.1	6.1	44
United States [c]	1950	11.8	3.8	32
(Billions of dollars)	1957	25.4	7.8	31
	1966	51.8	16.3	32
	1977	147.2	60.4	41
	1985	250.7	108.3	43
	1986	276.1	119.1	43

an increasing reliance on supporting services in trade, finance, accounting, advertising etc. -- a reason why many service affiliates were established abroad by industrial corporations. While the internationalization of service production by TNCs lagged behind that of the industrial sector until the early 1970s, it has been expanding more rapidly over the past 15 years or so. A good part of this process appears to have been a result of service TNCs following industrial TNCs abroad, as the greater part of growth in services FDI has been in intermediate rather than final consumer services. In the process, service TNCs gained the experience (and discovered the advantages) of operating internationally, which they built upon to penetrate new markets. The reasons for the growth of FDI in services are discussed in some detail in Chapter IV. For the moment it is sufficient to emphasize that it would be misleading to think of services FDI as displacing industrial FDI. Rather, what one observes is the growth of a global economy in which an increasing share of both goods *and* services are being produced by TNCs.

1. Led by the developed market economies

The reorientation of FDI towards the services sector has occurred in almost all developed market

Table 1.1 (continued)
(Value and percentage)

Country and currency	Year	Value: Total FDI	Value: FDI in services	Share of services in total FDI (Percentage)
France [d]	1980	51.0	20.7	41
(Billions of francs)	1985	149.0	63.4	43
Sweden				
(Billions of dollars)	1982	6.3	2.5	40
United Kingdom	1971	9.3 [e]	2.2 [e]	24
(Billions of pounds)	1981	45.5	16.2	36
	1984	75.7	26.4	35
Italy	1974	2 285.0	1011.0	44
(Billions of lire)	1976	2 941.0	958.0	33
	1980	6 484.0	1987.0	31
	1984	20 498.0 [f]	6 657.0 [f]	33
Canada	1973	7.8	2.4	31
(Billions of Canadian dollars)	1980	25.8	6.8	26
	1984	41.7	12.0	29
Switzerland [g]	1986	55.5	15.4	28
(Billions of Swiss francs)				
Netherlands [g]	1973	43.6	5.3	12
(Billions of guilders)	1983	119.9	27.2	23
	1984	143.7	31.7	22

Sources: UNCTC, based on various official and other sources.

Note. The definition of the services sector used here is a broad one, that is, it includes construction and public utilities, wherever possible. The data in this chapter are not necessarily consistent with those reported elsewhere (also in table 1.2) because, wherever possible, they have been adjusted to include all service activities in the category "services". The principal reason for any discrepancy is that when it comes to industry/country data, the reporting of industry distribution is less detailed than in the case of overall data. In addition, some countries compile detailed data only periodically, in FDI benchmark-survey years (for example, every five years in the United States). In non-benchmark years, data are less disaggregated, making it difficult to single out some service categories.

a Data for 1966 are not fully comparable with those for later years.
b Calculations of the stock based on cumulative outflows since 1967. Services include "other industries".
c Services data include services related to the petroleum industry which consist of trading and transportation services in this industry and oil and gas field services. Investment in finance, insurance and real estate in the Netherlands Antilles are excluded for 1977, 1985 and 1986.
d Calculations of the stock based on cumulative outflows during the periods 1975-1980 and 1975-1985. Services include items that cannot be classified.
e Excludes banking and insurance in countries other than the United States. These data are, therefore, not fully comparable with later years.
f A proportion of the investment recorded by the Bank of Italy under banking and finance has been reallocated to manufacturing. This is probably mostly investment channelled via holding companies in Luxembourg and Liechtenstein to the industrial sectors of other countries.
g Based on the industry affiliation of the parent corporation.

economies, the principal exporters of services capital: in most of the important among them, the share of the services sector is around 40 per cent of the stock of outward FDI, and that share is rising.

In the case of the United States, services were already quite important as early as 1950, when they accounted for nearly one third of FDI stock abroad. A significant shift towards services (at the expense of extractive industries) took place during the 1970s. Moreover, the composition of FDI within the services sector changed, with transportation, communication and public utilities declining in importance, and finance-related and trade-related services increasing in importance (Whichard, 1981, pp. 39-56). Between 1977 and 1986, the stock of FDI in services almost doubled, from $60 billion to $119 billion, and the share of services in the total stock rose to 43 per cent. In fact, close to half of the increase of United States FDI abroad during these years was accounted for by services.

Services FDI was also the most dynamic component in the rapid build-up of the outward FDI stock of Japan and the Federal Republic of Germany during the 1970s and 1980s, in the case of Japan more so than for any other country.

Table I.2 Foreign direct investment flows in services of major home and host countries, by descending order of share in services, 1975-1980 and 1981-1985
(Billions of national currencies and percentage)

Country	Total average annual flows 1975-1980	Total average annual flows 1981-1985	Share of services [a] 1975-1980	Share of services [a] 1981-1985	Change between 1975-1980 and 1981-1985 (Percentage points)
Outward FDI					
Japan [b] Total	**4.0**	**9.4**	**41.8**	**62.2**	**+ 20**
Developed market economies	1.8	5.1	59.3	66.4	+ 7
Developing countries	2.2	4.3	27.1	57.3	+ 30
Germany, Federal Republic of [c] Total	**8.9** [d]	**12.7**	**49.1** [d]		
Australia Total	**0.2**	**1.0**	**53.6**	**57.0**	**+ 3**
United States [e] Total	**15.6**	**9.1**	**34.3**	**53.2**	**+ 19**
Developed market economies	11.7	6.2	29.4	52.9	+ 24
Developing countries	3.9	2.9	48.6	53.7	+ 5
Finland	**0.3**	**1.5**	**48.7**	**47**	**- 2**
France Total	**7.4**	**19.6**	**44.1**	**43.5**	**- 1**
Developed market economies	5.6	15.2	47.6	46.6	- 1
Developing countries	1.8	4.4	33.3	33.1	-
United Kingdom [f] Total	**2.3**	**5.0**	**43.6**	**38.2**	**- 5**
Developed market economies	1.9	4.0	40.4	33.1	- 7
Developing countries	0.5	1.1	56.4	57.0	+ 1
Canada Total	**1.7**	**3.8**	**20.2**	**30.9**	**+ 11**
Developed market economies	1.4	3.4	25.3	31.7	+ 6
Developing countries	0.3	0.4	- 1.0	24.6	+ 26
Netherlands [g] Total	**6.8** [h]	**8.3** [i]	**39.8** [h]	**29.6** [i]	**- 10**
Developed market economies	..	7.3 [i]	..	27.8 [i]	..
Developing countries	..	1.0 [i]	..	41.9 [i]	..
Inward FDI					
Australia	1.0	2.1	60.9	80.5	+ 20
Finland	0.2	0.2	65.9	79.8	+ 14
Germany, Federal Republic of [c]	3.8 [d]	5.0	68.9 [d]	72.8	+ 4
Canada	0.4	-1.1 [j]	58.8	.. [j]	+ 11
France	5.5	9.7	61.6	64.5	+ 3
United Kingdom [f]	1.4	1.7	36.8	59.1	+ 22
United States	7.6	17.6	43.7	48.6	+ 5
Netherlands	2.0 [h]	1.4	50.4 [h]	46.6	- 4
Japan [b]	0.3	0.7	27.8	31.0	+ 3

Source: UNCTC, based on national data.

a Since geographically segmented data are often based on a more restricted definition of services, the figures are not fully comparable with total figures and those reported elsewhere. For Canada and the United Kingdom (inflows, 1975-1980), agriculture, forestry and fishing are included in services, and for the United Kingdom, services inflows also include mining for 1975-1980; the amounts involved are, however, relatively insignificant. Unallocated FDI has been excluded from calculations.
b Billions of dollars.
c Data are calculated as changes in FDI stocks.
d 1977-1980.
e Excluding the Netherlands Antilles.
f Until 1983, oil companies are excluded.
g Based on the sector of the Netherlands investor.
h 1980.
i 1982-1985.
j Average annual flows into the services sector were +0.8 billion Canadian dollars. Since total flows were negative (due to substantial disinvestment in the extractive sector), the share of services cannot be calculated.

Japan's FDI abroad increased by $61 billion between 1977 and 1985, of which 57 per cent was in services (63 per cent in the case of investment in developed market economies and 50 per cent in the case of developing countries). In both Japan and the Federal Republic of Germany, the share of services in the total stock of outward FDI had reached about 50 per cent by the mid-1980s. In the United Kingdom, the second largest foreign investor, services have also assumed a significant proportion of outward FDI stock. Data for France (based on cumulative investment outflows) suggest

Table I.3 The share of services in the outflow of Japanese foreign direct investment, by region, 1986 [a]
(Millions of dollars, numbers and percentage)

Region	Total FDI		Services			
			Value		Number of cases	
	(Millions of dollars)	Number of cases	(Millions of dollars)	Percentage	Number	Percentage
North America	10 441	1 284	7 817	75	867	68
Western Europe	3 469	404	2 905	84	303	75
Oceania	992	145	639	64	107	74
Africa	309	50	289	94	44	88
Asia	2 327	819	1 211	52	298	36
Latin America	4 737	490	4 348	92	436	89
Middle East	44	4	2	5	2	50
Total	**22 320**	**3 196**	**17 212**	**77**	**2 057**	**64**

Source: UNCTC, based on statistics issued by the Ministry of Finance, Japan.

a Fiscal year ending March 1987, on a notification basis.

that the services sector accounted for more than 40 per cent of outward investment since the mid-1970s.

Those five countries (the United States, Japan, the Federal Republic of Germany, the United Kingdom and France) account for about 70 per cent of the world's total FDI stock; and, for all but one of them, the share of services FDI in total FDI varies between 40 per cent and 50 per cent. Table I.1 also shows that the share of services FDI of some of the countries with smaller outward investment (Austria, Italy and Spain,) is even higher, although Canada, Switzerland and the Netherlands seem to be exceptions. Given the weight of those various countries in the world's stock of FDI, it is probably a conservative estimate that, by the mid-1980s, about 40 per cent of this stock was in services.

It is obvious that, for the *stock* of services FDI to have reached this proportion, *flows* of FDI must have changed their composition even more so.[3] This is, indeed, the case (table I.2): during the first half of the 1980s, the share of services in the total investment outflows of Japan, the Federal Republic of Germany and Australia was around 60 per cent; in those of the United States, Finland, France and the United Kingdom between, roughly, 40 per cent and 50 per cent; and only for Canada and the Netherlands was it considerably less than 40 per cent. Furthermore, for a number of the major countries for which data are available, this share was higher, at times considerably so, during the first half of the 1980s than during the second half of the 1970s. That pattern also holds when flows are examined separately for developed and developing countries. If data for 1986/1987 for Japan are indicative, this trend is continuing (if not becoming stronger) during the mid-1980s (table I.3).

As with FDI in general, FDI in services is concentrated in developed market economies. And, mirroring the growth of outward stocks and flows, inward stocks of FDI in services have grown considerably in the majority of developed market economies (table I.4). By the mid-1980s, services accounted for about half of the inward stock of France, the United States, Australia, the Federal Republic of Germany and Finland, and for about two fifths in Austria, the Netherlands, Portugal, Italy and Denmark. Again, flow figures show an even stronger shift (table I.2). During the first half of the 1980s, 70 per cent or more of the FDI inflows in Australia, Finland, the Federal Republic of Germany and Canada were in service industries.

3 Changes can also be brought about by nationalizations. These occurred particularly during the late 1960s and early 1970s and affected all sectors of FDI.

Table I.4 Inward stock of foreign direct investment in services, selected host developed countries, by descending order of share in services, various years
(Value and percentage)

Country and currency	*Year*	*Total FDI*	*FDI in services*	*Share of services in total FDI (Percentage)*
France [a]	1980	89.7	33.1	37
(Billions of francs)	1985	129.0	81.7	63
United States	1974	26.5	11.5 [b]	43
(Billions of dollars)	1980	83.0	37.7	45
	1985	182.9	92.2	50
	1986	209.3	111.2	53
Australia	1975	7.0	3.1	43
(Billions of Australian dollars)	1980	10.9	5.3	49
	1983	18.1	8.5	47
Finland [c]	1975	0.9	0.7	76
(Billions of markkaa)	1980	1.7	1.2	70
	1985	2.5	1.8	73
	1986	4.6	1.9	46
Germany, Federal Republic of	1976	78.9	26.3	33
(Billions of deutsche mark)	1980	93.9	36.4	39
	1984	112.8	50.1	44
	1985	119.1	54.9	46
Austria	1975	33.5	17.1	52
(Billions of schillings)	1980	43.7	18.7	43
	1981	46.0	20.5	44
Netherlands	1973	20.7	5.8	28
(Billions of guilders)	1980	42.5	16.1	38
	1984	58.3	24.9	43
Portugal	1974	7.7	3.1	40
(Billions of escudos)	1983	38.4	16.4	43
Italy	1974	5 449.0	1 723.0	32
(Billions of lire)	1980	8 274.0	2 574.0	31
	1984	18 031.0	6 079.0	34
	1985	31 769.0	11 752.0	40
Denmark [d]	1983	7.7	2.8	37
(Billions of kroner)				
United Kingdom	1971	5.6 [e]	0.6 [e]	11
(Billions of pounds)	1981	30.0	6.0	20
	1984	38.5	13.3	35
Spain	1975	142.8	31.2	22
(Billions of pesetas)	1980	407.4	102.8	25
	1984	1 097.8	339.2	31
Japan	1975	1.5	0.3	18
(Billions of dollars)	1980	2.9	0.7	22
	1983	4.9	1.2	25
	1986	7.0	2.0	29
Canada	1975	37.4	9.2	25
(Billions of Canadian dollars)	1980	61.6	15.4	25
	1984	81.8	23.6	29
Belgium	1970	113.8	11.1	10
(Billions of francs)	1975	181.9	21.8	14
	1981	238.8	41.3	17

Sources: UNCTC, based on various official and other sources.

a Cumulative flows during 1975-1980 and during 1975-1985.
b Data for 1974 are not fully comparable with the data for later years, because services do not include banking and petroleum-related services. They do include, however, other industries (agriculture and mining, but not petroleum).
c Cumulative flows since 196[illegible]. Services include "other industries".
d Cumulative flows for the period 1974-1983.
e Excluding banking and insurance. Services include agriculture and mining.

For France and the United Kingdom, this share was about 60 per cent, and for the United States and the Netherlands it was almost 50 per cent. In all of these countries, services attracted more FDI than manufacturing or primary goods. A notable exception is Japan, with less than one third of its inflows in services. As with outward FDI flows, this share has grown in most cases if compared to the second half of the 1970s.

By far the largest host country for services FDI is the United States, with over $110 billion of inward stock in services in 1986. This stock is more than double that of the next two largest host countries combined, that is, Canada and the Federal Republic of Germany. The United States (the largest home country of TNCs) has also become the leading recipient of FDI during the 1980s, receiving upwards of 60 per cent of all FDI flows from other countries. However, it is not generally appreciated that much of that expansion of inward investment is the direct result of the growth of FDI in services. Between 1980 and 1985, for example, the stock of FDI in services increased by $55 billion, more than the growth of all other sectors combined ($45 billion). Six countries accounted for more than four fifths of this increase: Japan and the United Kingdom each accounted for nearly 25 per cent; Canada, the Federal Republic of Germany, the Netherlands and Switzerland made up the balance.

Thus, as in the case of outward investment, services have been at the forefront of the expansion of inward FDI in a number of countries. This is seen most dramatically in the case of the Federal Republic of Germany, where nearly four fifths of the increase of inward FDI between 1976 and 1985 was in services. In fact, virtually all newly established or newly acquired enterprises with foreign participation during that period were in services. In the words of the Deutsche Bundesbank: "It would appear that Germany has ceased to be attractive to non-residents as a location for industrial goods production" (Deutsche Bundesbank, 1987, p. 3).

2. *Followed by the developing countries?*

Only fragmentary data exist on the sectoral composition of the outward FDI of developing countries (table I.5). They seem to suggest that these countries, too, have a considerable share of their outward investment in services, especially in trade- and finance-related activities and construction. The situation differs according to industry. For example, it is known that construction companies from Brazil, the Republic of Korea and the Philippines, and engineering companies from Argentina, Brazil and India, play a relatively important international role in their industries, particularly in and around the regions in which they are situated. The presence of some banks from developing countries in financial centres may be due to their ability to exploit certain market niches, or to specific advantages of knowledge matching the specific needs of clients (for example, emigrants). However, the data are too sketchy to permit any firm generalization. In any event, since the share of developing countries in world FDI was probably not more than 5 per cent during the mid-1980s, any change in the pattern of their FDI is likely to have only a marginal impact on the overall pattern.

Data on investment in developing countries are more comprehensive. Two sets of data -- those published by a number of important individual host developing countries, and those of major developed home countries -- can be used to assess the extent to which developing countries have participated as recipients in the upsurge of FDI in services.

Data are available for the inward stock of 25 developing countries which, together, account for 75 per cent of the total stock of FDI in all developing countries (table I.6). The value of services FDI has been growing in all these countries, but in a number of them at a slower pace than that of other sectors. As a result, few of these countries have experienced the dramatic increases in the share of services in their inward FDI experienced by some of the developed countries. Nevertheless, for quite a number of them (Hong Kong, Singapore, Bangladesh, Sri Lanka, Panama, Paraguay, Ecuador, Egypt, Morocco and Thailand), the share of services in the total inward stock has surpassed 40 per cent. However, it should be taken into account that in a number of these countries the level of FDI is relatively small so that any major investment in any sector can significantly change the composition of inward FDI.

Data on the regional distribution of FDI stock in services by some major developed home countries yield a similar picture, but with one important

Table I.5 Outward stock of foreign direct investment in services, selected developing countries and territories, various years
(Millions of dollars)

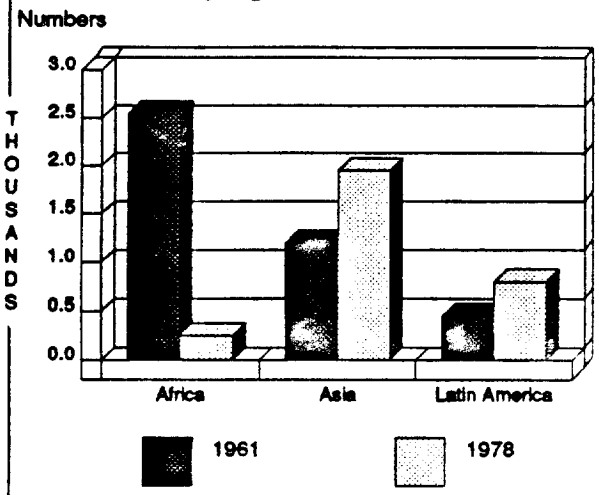
Country/territory	Year	Total FDI	Share of Services (Percentage)	Principal service industries (Percentage, latest available year)	
				Industry	Percentage of the services total
Argentina	1981	87	14	Construction	57
				Distributive trade	25
Brazil	1982	863	53	Banking and finance	86
				Transport and communication	7
Chile	1979	10	91	Banking and finance	65
				Distributive trade	16
Colombia	1974	36	71	Banking, finance and insurance	67
	1978	90	87	Property	27
				Distributive trade	3
Hong Kong	1981	1 429 [a]	28	Property	32 [b]
				Construction	24 [c]
				Distributive trade	24 [c]
India	1982	128	16	Banking and finance	36
				Construction	21
Korea, Republic of	1981	174	54	Trade	47
	1985	476	30	Construction	21
	1986 [d]	587	27	Real estate	17
Philippines	1981	106	39	Banking and finance	88
				Construction	2
Taiwan Province	1981	60	17	Distributive trade	71
				Construction	17

Sources Republic of Korea, Ministry of Finance, *Financial Statistics*, December 1986, and John Dunning and John Cantwell, *IRM Directory of Statistics of International Investment and Production* (New York, New York University Press, 1987).

a Indonesia, Malaysia (1982), Sri Lanka (1982), Taiwan Province and Thailand only.
b Indonesia and Sri Lanka only.
c Indonesia and Taiwan Province only.
d October 1986.

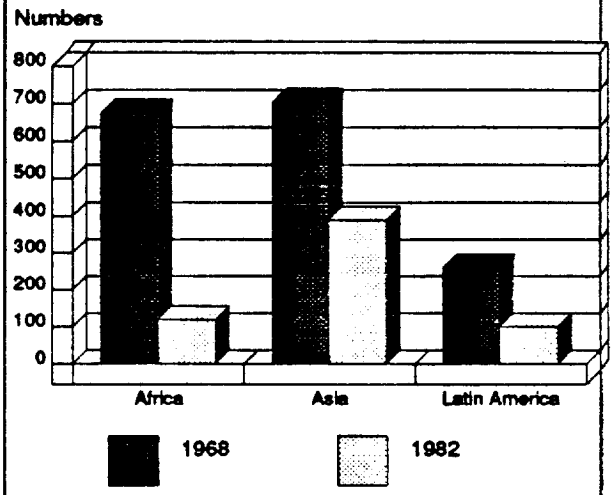
caveat. For the United States, services accounted in 1985 for half of the stock of FDI in developing countries as a group. For the Federal Republic of Germany, Japan and the Netherlands, the corresponding share varied between about 30 and 40 per cent. The caveat is that these shares are unduly influenced by investment in offshore financial centres (especially, the Bahamas, Bermuda, the Cayman Islands, the Netherlands Antilles and Panama) and countries offering flags of convenience (for example, Liberia and Panama). Those countries alone absorbed between 60 and 70 per cent of the increases of Japan's and the United States' services FDI in developing countries between 1977 and 1985 (annex tables A.1 and A.2). Information for the Netherlands and the Federal Republic of Germany suggest that this is not an isolated phenomenon: in 1984, over 70 per cent of the former's FDI in services in developing countries was concentrated in the Netherlands Antilles, and 32 per cent of the latter's is located in a handful of offshore financial centres. If offshore financial centres and countries offering flags of convenience are excluded, the share of services in the FDI stock originating in the United States, Japan, the Federal Republic of Germany and the

Figure I.1 Foreign banking affiliates (branches and agencies) in developing countries, by region, 1961 and 1978



Source: R.M.Pecchioli, *The Internationalization of Banking: The Policy Issues* (Paris, OECD, 1983)

Figure I.2 Foreign insurance affiliates in developing countries, by region, 1968 and 1982



Source: *Sigma*, July 1983.

Netherlands, and located in the developing countries, declines for each of the countries by about 10 to 20 percentage points.[4] The resulting services stock has still grown in absolute terms, but not in a consistent pattern. In the case of the United States, for instance, this share of services FDI in the country's total FDI in developing countries declined between 1977 and 1985; it registered a small increase in Asia and the Pacific; and it decreased slightly in Latin America and considerably in Africa. By contrast, in the case of Japan, this share of services in the total FDI in developing countries rose from 16 per cent in 1977 to 21 per cent in 1985.

The picture that emerges for developing countries is, therefore, a mixed one. Clearly, services FDI is increasing in absolute terms, particularly in countries offering offshore financial centres and flags of convenience. Equally clearly, however, not all developing countries are participating in this trend, and in a number of countries the share of services in total inward FDI has fallen. It is difficult to identify the extent to which special factors, such as the growth of non-equity involvement by TNCs in some industries (for example, hotels and construction management) and widespread nationalizations in banking and insurance (especially in Africa), as well as public utilities in the early 1970s, have played a role (figures I.1 and I.2).[5] At the same time, data limitations make it difficult to draw any conclusions about the relative importance of FDI in individual service industries. There is, however, enough fragmentary evidence to suggest that foreign affiliates play a central role in a number of key service industries in developing countries (Dunning and Cantwell, 1987). Moreover, this central role is sometimes achieved with a relatively low amount of FDI because, among other reasons, the services sector in many developing countries is not as developed as in many industrial countries. The future growth of the services sector in the

4 Calculated from official sources.

5 Naturally, not the entire decrease in the number of affiliates is attributable to nationalizations, as affiliates may have been closed down or combined with other affiliates.

Table I.6 Inward stock of foreign direct investment in services, selected host developing countries and territories, various years
(Billions of dollars and percentage)

Country/territory	Year	Value		Share of services in total FDI (Percentage)
		Total FDI	FDI in services	
Latin America				
Argentina [a]	1981	2.4	0.6	25
	1983	2.8	0.8	27
	1985	3.1	0.9	26
Bolivia [b]	1981	0.46	0.05	11
	1986	0.53	0.06	11
Brazil	1971	2.9	0.5	16
	1976	9.0	1.9	21
	1985	25.7	5.6	22
Chile	1973	0.4	0.1	27
	1983	2.0	0.7	33
Colombia [c]	1975	0.6	0.2	29
	1980	1.1	0.2	23
	1985	2.2	0.4	16
	1986	2.7	0.4	13
Ecuador [c]	1981	1.0	0.5	48
	1986	1.3	0.6	44
Mexico	1971	3.0	0.6	19
	1976	3.3	0.6	18
	1980	9.9	2.3	24
	1981	13.5	3.2	23
Panama	1975	0.3	0.1	32
	1980	0.3	0.1	37
	1983	0.4	0.2	48
Paraguay	1984	0.3	0.1	45
Peru	1978	0.8	0.2	25
	1980	0.9	0.2	27
	1985	1.4	0.4	29
	1986	1.4	0.4	30
Venezuela	1981	1.8	0.61	34
	1986	2.4	0.65	27

developing countries is, therefore, one of the key variables which will determine the growth of services FDI in developing countries -- together, of course, with the extent to which government policies will permit FDI in this sector.

3. A special case: the socialist countries

The socialist countries of Eastern Europe and China play only a minor role in international direct investment. To the extent that it takes place, and as measured by the sectoral composition of the number of equity ventures, it is primarily in services, particularly in developed market econo-

Table I.6 (continued)

Country territory	Year	Value		Share of services in total FDI (Percentage)
		Total FDI	FDI in services	
Asia				
Bangladesh [d]	1980	0.013	0.009	64
	1982	0.018	0.012	69
Hong Kong	1981	3.8	2.4	55
Indonesia [e]	1977	2.9	0.3	11
	1980	4.0	0.4	11
	1985	6.4	0.7	10
Korea, Republic of	1980	1.1	0.3	23
	1986	2.2	0.7	27
Malaysia [f]	1972	0.7	0.2	37
	1984	2.9	1.2	40
Philippines	1976	0.5	0.2	34
	1983	2.0	0.5	26
Singapore	1970	0.6	0.3	55
	1976	2.8	1.3	47
	1981	8.2	4.2	51
Sri Lanka [g]	1985	0.7	0.4	57
Taiwan Province [b]	1985	5.2	1.2	23
	1986	5.9	1.4	23
Thailand [h]	1975	0.5	0.3	56
	1980	0.9	0.5	54
	1985	2.0	0.9	47
Africa				
Egypt [i]	1979	7.0	4.0	57
	1984	14.9	6.7	45
Morocco	1975	0.2	0.1	48
	1982	0.7	0.4	54
Nigeria	1975	3.0	0.6	20
	1980	4.9	1.9	40
	1982	4.3	1.6	37
Zimbabwe	1982	1.9	0.7	34

Sources: UNCTC, based on official and other sources.

Note: The shares of services were calculated before the rounding of the stock figures. They may, therefore, differ from the shares which would result from the rounded figures.

a Cumulated approved FDI since 1 March 1977.
b Based on approvals.
c Excluding oil.
d Cumulative flows since 1977.
e Data exclude FDI in oil, insurance and banking.
f Equity shares held by foreign residents in limited liability companies incorporated in Malaysia as of 31 December 1972 and 31 December 1984 (paid-up value).
g On approval basis. Cumulative flows since 1977.
h Cumulated flows since 1971.
i Projects established under the Investment and Free Zones Law, cumulative 1974-1979 and 1974-1984.

mies (table I.7). Trading firms are the single largest group of affiliates in developed market economies, giving this investment mainly a trade-supporting character. The principal task of those service affiliates is to establish a foreign marketing infrastructure to facilitate the export of goods and services produced by socialist countries.

Foreign direct investment in the socialist countries of Eastern Europe is also of marginal importance: perhaps between $200 and $500 million were invested, at the beginning of 1987, in about 800 joint ventures; seven eighths of those are, however, small firms in Poland, which are mostly owned by individuals of Polish origin domiciled in developed market economy countries (table I.8). The services sector has not been one which has been given priority by the socialist countries. Nevertheless, joint ventures in services account for almost half of the total in Hungary and Bulgaria, the two countries with the highest number of joint ventures if the special case of Poland is excluded. Banking, trade, tourism and equipment-maintenance operations appear to be particularly common. In addition, non-equity forms are of some importance in the hotel and related industries in many of these countries. With the gradual liberalization of FDI laws and policies, it can be expected that more service industries will be opened up to foreign investors.

For China, detailed data on the sectoral breakdown of joint ventures (which are only one category of FDI according to the Chinese classification) indicate that more than half of total FDI between 1979 and 1984 was directed to the services sector (table I.9). Given the preponderance of investment in services and the country's current strong focus on export-oriented and high technology FDI, the Government of China decided in 1987 to curtail investment in this sector.

Table I.7 Number of equity ventures abroad of enterprises from socialist countries of Eastern Europe, by geographical region and economic sector

Sector	Equity ventures in: Developed market economies (end of 1985)	Equity ventures in: Developing countries (1984)
Natural resources and industry	26	65
Services	377	48
Unknown	-	55
Total	**403**	**168**

Source: "Socialist countries' enterprises abroad: new trends", *The CTC Reporter*, No. 24 (Autumn 1987), p. 21.

B. The leading role of finance- and trade-related services

Statistics on the composition of FDI in services are rare and differ greatly in their coverage. Nevertheless, the similarities are more striking than the differences: in most home and host countries for which data are available, the dominant positions are occupied by FDI in finance-related services (banking, insurance and other financial services) and in trade-related services (wholesale and retail trade and marketing) (figures I.3 and I.4 and annex tables A.3 - A.5). As a percentage of the outward FDI stock in services of 11 home countries, the share of finance-related services ranged from 27 to 84 per cent in the first half of the 1980s. That of trade-related services for the same countries was, with three exceptions, between 22 and 42 per cent. Similarly, as a proportion of inward FDI stock in services, and both for developed and developing countries, finance-related services and trade-related services together typically account for 50 to 90 per cent.

The rapid growth of FDI in finance-related services is, first and foremost, a reflection of the world-wide expansion of transnational banking networks. Given the importance of transnational banks their role is examined separately in chapter III). Suffice it to say that banks expanded mainly during the 1970s and had established almost 5,000 offices abroad by 1980 -- practically the same number as in 1985. But scarcely less significant is the proliferation of finance-related affiliates established by non-financial corporations, especially in the trading, manufacturing and petroleum industries. The principal task of these affiliates is to improve the efficiency of the financial management of their corporate systems by such means as facilitating the flow of funds among the various entities of a corporate system; investing surplus funds as profitably as possible; raising funds locally; and utilizing optimally the facilities offered by tax havens. Insurance TNCs also establish finance affiliates in major financial centres, normally with the sole purpose of investing their parent corporations' funds in foreign securities. The growth of

Table I.8 Joint ventures in the socialist countries of Eastern Europe, by sector, 1987 [a]
(Percentage)

	Bulgaria	*Czecho-slovakia*	*German Democratic Republic*	*Hungary*	*Poland*	*Romania*	*Soviet Union*
Agriculture and industry	36	100	-	42	62	81	100
Services	51	-	-	47	20	19	-
Unspecified	13	-	-	11	18	-	-
Total							
Percentage	**100**	**100**	-	**100**	**100**	**100**	**100**
Number	**10**	**2**	**0**	**87**	**700**	**7**	**2**

Source: UNCTC, based on national statistics.

a Since some joint ventures are active in several sectors, these figures are based on a different total than the actual number of joint ventures.

finance-related services has also been fuelled by the growth of holding companies. Holding companies are a popular conduit of FDI for all types of TNCs and are often motivated by tax reasons. They are typically responsible for certain aspects of the financial management and administration of a corporate system as a whole. They supply buying, accounting, and management services to their subsidiaries, but perform no production functions as such. Since their assets include those of both service and non-service TNCs, their inclusion in the category of finance-related services FDI (which is done by the Federal Republic of Germany and the United States) inflates the size of that category to a certain extent.

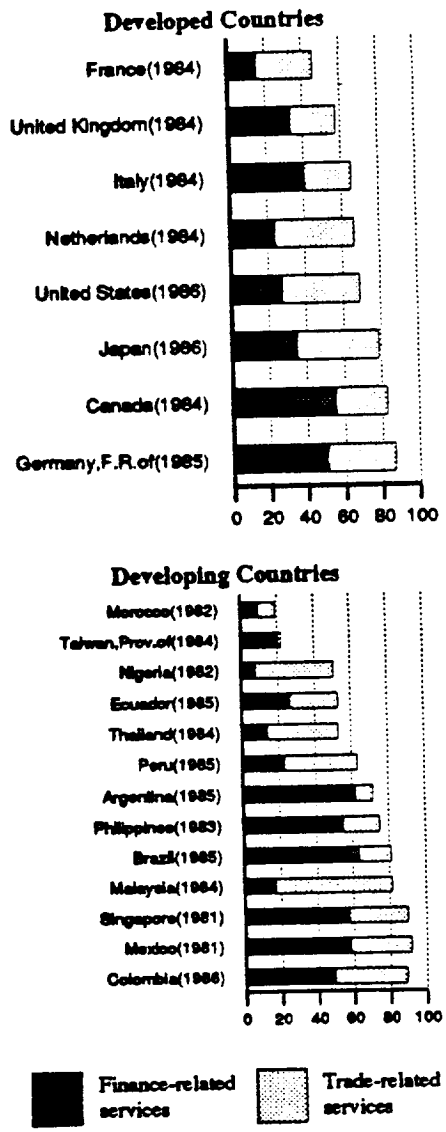
The importance of trade-related FDI is mostly a function of the role of trading as an auxiliary activity to the production (domestic and international) and distribution of goods. In fact, about four fifths of the assets of foreign wholesale trading affiliates of United States and United Kingdom TNCs are controlled by industrial companies. Independent transnational trading corporations (firms which basically market the products of unrelated companies or purchase inputs from various sources) belong to the oldest types of TNCs. But important are also foreign trade establishments, which are affiliated with industrial companies and specialize in the marketing of the final products of their parent companies. [6]

Among the *independent transnational trading corporations,* four different types, each with a specific historical background and a clear specialization, have evolved:

- *Agency houses.* Independent agency houses are the oldest type of transnational trading corporation, most of which are of Western European origin and were established before the Second World War. Their affiliates specialize in the import and distribution of final goods and services from non-affiliated principals in developed countries. They are particularly active in markets which are considered to be too small by TNCs to establish their own sales affiliates. The role of these agency houses has been declining in recent years, as local distribution companies have become more competitive and producers have enlarged their international network of marketing affiliates. Agency houses have reacted with mergers and by diversifying into production, consulting and engineering. Yet, the share of agency houses in Western European exports to developing countries continues to be of an order of magnitude of 10 to 20 per cent, and they continue to be relatively important in small and low-income developing countries (Batzer and Ziegler,

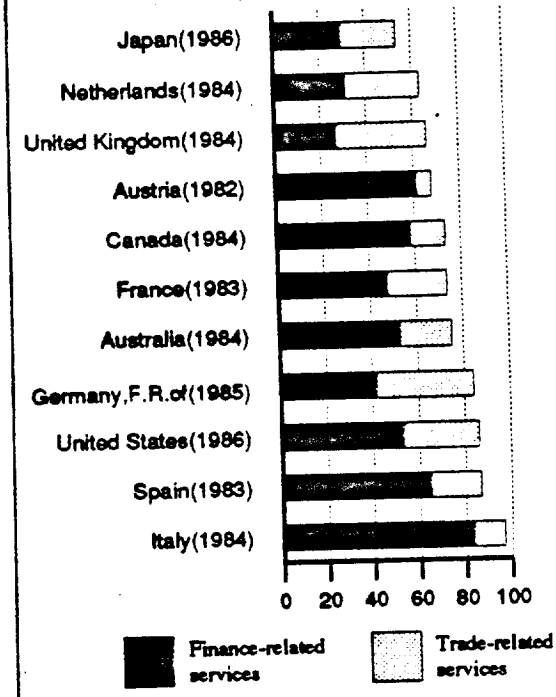
6 The text on transnational trading corporations draws on the Joint ESCAP UNCTC Unit, 1985, and on material supplied by the International Trade Centre, UNCTAD GATT.

Figure I.3 Share of finance- and trade-related services in inward services FDI stocks, selected countries (Percentage)



Source: Annex table A.5.

Figure I.4 Share of finance- and trade-related services in outward services FDI stocks, selected countries (Percentage)



Source: Annex table A.5.

1984).

- *General trading companies.* The nine Japanese general trading companies *(sogo shosha)* are the prototype for this category. (Box I.2 describes one of these companies.)

They are the world's largest and most diversified trading companies in terms of products, markets and functions. During the year ending March 1986, they handled approximately 8 per cent of world trade, in addition to a large share of Japan's domestic trade. The share of the *sogo shosha* in the total trade of Asian and Pacific countries has been estimated at about 17 per cent at the beginning of the 1980s, when they also handled as much as 10 per cent of United States exports (Capiello, 1982, pp. 18-30). Although the *sogo shosha* have gone through a period of low growth and profits during the mid-1980s, they continue to be a centre-piece of Japan's economic relations with developing countries and they channel a large share of the country's trade, investment and technology transfer to the third world. In addition, their world-wide presence and

Table I.9 Sectoral distribution of foreign direct investment in services in China, 1979-1984 [a]
(Value and percentage)

Industry category	Number of investments	Value	
		Millions of dollars	Percentage
Construction	27	33	5
Commerce	34	21	3
Finance and insurance	-	-	-
Transportation	37	36	5
Real estate	5	22	3
Other services	142	605	85
Total	**245**	**717**	**100**
Memorandum:			
All industries total	**630**	**1 318**	

Sources: K. Nakatani, "The present situation and problems of direct investment in China", Research Institute of Overseas Investment, The Export-Import Bank of Japan, *Exim Review*, vol. 7, No. 1 (October 1986), p. 116.

Note: According to Chinese definitions, equity joint ventures are only one form of FDI. Other forms include wholly-owned subsidiaries, contractual joint ventures, joint exploration ventures, compensation trade and processing contracts. Time series data for a sectoral breakdown cannot be compiled because the classification of industries varies from year to year. Data in the table are estimates of UNCTC.

a Cumulative, based on approvals, utilized amounts. Joint ventures only.

communication networks have put them into a unique position to develop trade with non-traditional markets, particularly in South-South trade.

The important role of the *sogo shosha* in Japan's economic rise after the Second World War has induced numerous countries to emulate the Japanese experience by promoting the creation of local general trading companies. While the size and diversification of the *sogo shosha* have not been rivalled by trading companies from any other country, transnational trading corporations have emerged in the Republic of Korea and in Brazil. The seven largest general trading companies of the Republic of Korea, for instance, handle more than 40 per cent of the country's exports and have established a global network of affiliates (table I.10). In fact, exports through general trading companies increased at an annual rate of 22 per cent between 1977 and 1986, compared to 15 per cent for the growth of total exports from the Republic of Korea.

- *Commodity traders.* The market structure of international commodity trade has given rise to a type of transnational trading corporation specializing in one or more commodities. They are found in those markets which are not dominated by vertically integrated TNCs and where neither producers nor final consumers are in a position to establish their own international marketing or procurement systems. They are particularly prominent in the international trade of agricultural commodities such as grain, sugar, coffee, cocoa and cotton. Examples are Cargill and ACLI International, both from the United States, and Alfred Toepfer from the Federal Republic of Germany. Notwithstanding their high sales figures, many of those companies continue to be family-owned, as discretion and flexibility are two of their most important assets.

Over the past decade, the large commodity traders have gone through an accelerating process of concentration and diversification. At the same time, progress in the application of data technologies has reduced barriers to market entry. Combined with the growing importance of some commodity exchanges in some third world producer countries, this trend has strengthened transnational commodity traders in developing countries. Cases in point are the Lee Brothers from Singapore in the rubber trade, Bunge & Born in Latin America and Brazil's CVDR trading company in minerals.

- *Retailers and buying agents.* Retail chains undertake two types of transnational activities. One consists of the expansion of retailing units abroad, and the other of the establishment of a network of foreign buying offices or agents to supply the chains. The largest transnational retail chains are mostly of Western European and United States origin. They operate mainly in each other's territory, although they are also present in selected developing countries. Over the past decade or so, Western European retailers have been particularly active in penetrating the United States market, primarily through mergers and acquisitions.

At the same time, buying offices of large retail chains in developed market economies have emerged over the past two decades as new vertically integrated marketing channels for final products exported from developing countries. Retailing companies, such as Sears Roebuck & Co., May Department Stores or

Box I.2 Mitsui: on the way to the twenty-first century

Sogo shosha possess a number of important ownership advantages (for an elaboration and discussion of this concept, see chapter IV): control over a global network of especially trading affiliates and information-gathering offices; considerable bargaining power to influence the conditions of trade; and superb information-gathering and communication systems. The uniqueness of a sogo shosha lies in its ability to organize and combine these advantages to its and its customers' profit, particularly by providing essential links between various stages of the production process.

Mitsui & Co. possesses (1986) all of these advantages:

- *It has more than 300 foreign affiliates and offices which employ some 3,700 persons; in Japan, another 9,000 employees work for the company;*
- *Its total sales of $90 billion give it a bargaining power which few other firms can match;*
- *Its world-wide information-gathering and communication system is probably second to none.*

The information and communication system is the heart of the company's operations. It links its foreign affiliates and offices with a number of regional centres outside Japan. In 1986, its communication expenditures amounted to 8 per cent of its total expenditures. Its telex-cum-computer communication system is centred on the home office in Japan, and a specially trained communication corps is responsible for the information-gathering function. The company's communication lines total 500,000 kilometres, greater than the distance between the earth and the moon. In 1986, the daily volume of messages amounted to an estimated 110,000 dispatches and receipts containing 10 million words (compared to 60,000 daily messages containing 3.4 million words in 1978). Mitsui's communication expenditures-to-sales ratio surpasses easily that for R & D-to-sales of most manufacturing firms. For trading companies, the establishment and maintenance of a communication system is an investment, just as R & D is an investment for industrial firms.

Quelle, maintain affiliated buying offices in numerous countries. Increasingly, such buying agents also procure goods and services for third parties. The major function of buying agents is to identify low-cost producers, to provide them with samples and to control quality. In fact, the specifications to which those agents buy are often so comprehensive that they buy production capacity rather than products. While garments continue to be the most important product group for buying offices, various other products (such as leather articles, kitchen and gift ware and electronic consumer goods) have become important lines for buying agents.

The share of buying agents in the manufactured exports from developing to developed countries has been estimated at as much as 20 per cent. These new trading channels play an important role in transmitting soft technology, such as product design, quality control and packaging techniques, to producers in host countries.

Apart from those various types of independent transnational trading companies, many parent corporations have established *marketing affiliates* abroad, primarily to distribute their goods and services. In the case of industrial companies, those affiliates are normally mere conduits through which final products are distributed. In the case of service firms, the distinction between distribution and producing affiliates is often difficult to make because the nature of services normally requires that services be produced where they are consumed. However, the increased use of transborder data flows is likely to lead to a service-specific brand of distribution affiliates, that is, affiliates which become more or less mere conduits through which services produced elsewhere are distributed in host countries.

Downstream integration into distribution and marketing activities has been a widely embraced strategy for large manufacturers producing differentiated and marketing-intensive products, in order

The history of the sogo shosha is a history of continuing adjustment and adaptation to new opportunities. Traditionally, their main focus was on commodities. But, confronted with structural changes at home and abroad, they are moving into such new growth areas as services, electronics and biotechnology.

Mitsui is no exception. The sharp appreciation of the yen and falling prices of such raw materials as crude oil affected the company negatively in its traditional commodity activities. Recognizing the signs of the time, Mitsui ventured into new fields. For example:

- *Following the deregulation of the telecommunication system in Japan, it decided to participate in several new telecommunication carriers to provide domestic and international telecommunication services, and it began marketing data-bases and on-line information services and software at home and abroad;*
- *Capitalizing on its world-wide network and experience in transportation and distribution, it invested in the establishment of a "non-vessel-operating common carrier". The system operates no vessels, but rather provides information and information arrangements on a fully integrated set of sea, air and land-transport services and arranges services where they are required. This information system is complemented by an aircraft transportation company, an international parcel-delivery service and a network of overland distribution and warehousing companies;*
- *With an eye on high value-added services, Mitsui has also diversified into a growing range of financial services: dealer and customer financing, project and lease financing, corporate finance and mortgage loans;*
- *Through the Tokyo Executive Centre, Inc., it rents office space and consultation and secretarial services to foreign business persons staying in Japan.*

In the twenty-first century, Mitsui may no longer trade primarily in commodities. Rather, it may be a diversified services company.

to internalize transaction costs and the advantages arising from the producer-specific knowledge of their products. Trade-mark and brand-name considerations, as well as the growing importance of global marketing strategies, have become a major investment determinant for the establishment of marketing affiliates. This trend has been fostered by the fact that trade marks and brand names are normally granted for an indefinite period -- in contrast to patents and copyrights. In industries such as petroleum, chemicals, office equipment and computers, pharmaceuticals, and food and beverages, the major TNCs have established global networks of marketing affiliates.

The quantitative importance of marketing affiliates in world trade is difficult to assess. United States data indicate that local sales of wholesale companies which are majority-owned affiliates of non-bank United States parents *other than* wholesalers were equivalent to 23 per cent of total United States exports in 1982 (United States, Department of Commerce, 1985). This is, of course, a maximum figure, because local sales are usually valued higher than the corresponding United States exports and because this figure may include goods bought locally or from countries other than the United States. In Thailand and Malaysia, marketing affiliates handled between 5 and 10 per cent of national imports in 1980.

During the 1980s, the balance between the role of marketing affiliates and independent trading corporations appears to have shifted in favour of the former. A combination of factors accounts for this development. First, as the share of commodities in world trade declines, the role of commodity traders in this area is affected. Second, the number of marginal markets (that is, markets which are too small or too far away to warrant the establishment of marketing affiliates from the perspective of TNCs) is decreasing as international trade and communication links grow. Third, many of the world's largest TNCs have created their own trading departments or subsidiaries, some of which have also expanded into third-party trading. Cases

Table I.10 General trading companies based in the Republic of Korea, 1986

Name	Sales	Exports	Imports	Employment		Foreign affiliate network [a]		
	(Millions of dollars)			Total [b]	Foreign [c]	Branches	Subsidiaries	Total
Samsung Co.	4 850	3 124	699	4 243	270	44	12	56
Daewoo Corp.	4 782	2 781	550	31 750	465	61	7	68
Hyundai Corp.	4 397	3 954	391	707	123	54	4	58
Lucky Goldstar International Corp.	2 211	1 755	1 562	3 882	167	23	6	29
Sunkyong Ltd.	1 955	1 129	769	2 913	255	26	8	34
Ssang Yong Corp.	1 071	1 045	302	655	84	17	5	22
Hyosung Corp.	874	940	154	..	92	14	9	23

Sources: "Top 100 companies", *Korea Business World*, November 1987; Korea Exchange Bank, "Korea's general trading companies", *Monthly Review*, vol. XXI, No. 7 (July 1987); *Asia's 7500 largest companies, 1987* (ELC International, London).

a As of March 1987.
b 1985.
c Only local employees, that is, excluding expatriated staff, March 1987.

in point are General Electric Trading and Matsushita Electric Trading. Fourth, a growing number of leading manufacturers appears to perceive their comparative advantage increasingly in distribution, product development, marketing and similar activities. Production is externalized to non-affiliated low-cost producers which are often located abroad. The products are then imported and sold under the manufacturer's name at home and elsewhere. A number of electronics producers in Western Europe appear to be pursuing this approach with products manufactured in Japan, and some TNCs in the United States seem to be moving in the same direction.

All of these various types of affiliates contribute to the growth of FDI in trading. However, not all of them have the same effects for host countries. For instance, it is one thing to have marketing affiliates whose principal purpose it is to maximize sales in the host country. It is another thing to have buying agents whose principal function is to source goods and services for export. More generally, trading companies can play a key role in developing and diversifying export markets and in identifying the most competitive suppliers of imports. Because of these differences, it is appropriate for host countries to distinguish between various types of trading affiliates when devising policies for this industry.

Investments in other service industries do not match the size of those in trade- and finance-related services, even if the latter are broken down into such sub-categories as banking, insurance or holdings (annex tables A.3 - A.4). There are, however, some exceptions. France and the United States are particularly attractive to investors in real estate, with the shares of this category accounting, respectively, for two fifths and one fifth of the inward stock in services. In Egypt, the Republic of Korea, Nigeria and Thailand, the share of construction is substantial. The Caribbean islands, Indonesia, the Republic of Korea and the Seychelles also have substantial FDI in hotels and tourism, and the data for Liberia and Panama reveal important investments in transportation (mainly shipping) and communication. Australia and Japan both record sizable outward investments in transportation facilities, whereas the Federal Republic of Germany and the United Kingdom have considerable outward investments in real estate. The share of the residual item "other services" is substantial in some countries in both outward and inward FDI -- but this is most likely due to less detailed statistical reporting on individual services categories by a number of countries. If such industries as real estate, transportation, construction and holdings are not shown separately, they can inflate the share of "other services" when compared with that recorded by countries which provide a more detailed breakdown of their data. In none of the major home countries, however, is the share of this item significant, although it still includes a great variety of business and professional services (such as advertising,

accounting, engineering, and data processing) and other services (for example, hotels, health services) in which TNCs are active. Box I.3 shows, for instance, to what extent the hospital industry -- not an industry normally considered among those involved in operating abroad -- has begun to transnationalize.

Thus, although TNCs in many other service industries are highly visible and have assumed important positions in many host countries, they do not have a substantial *quantitative* impact on the overall level of FDI. There are various reasons for this:

- Foreign affiliates in finance- and trade-related services appear to be much larger than affiliates in such business and professional services as advertising, accounting, consultancy, legal services, and some data services. For instance, while in 1982 the average value of FDI per United States affiliate amounted to $11.5 million in banking, insurance and retail trading, the average in business and other services was only $3 million (in advertising $1.7 million and in accounting $0.8 million).
- Many countries restrict FDI in such capital-intensive services as public utilities, communication and transport facilities.
- In the largest developed home and host countries at least, finance-related services typically have the highest growth rates in both inward and outward FDI (annex table A.6). And although investment in trade-related services has grown at roughly the same average yearly rate as investment in the services sector as a whole, it has been responsible for a large part of the absolute increases of services FDI in a number of countries (annex table A.6).

As a result (and with only a few exceptions), investment in finance- and trade-related services dominated FDI in services in most countries during the first half of the 1980s.

C. The relative importance of foreign direct investment and trade in services

In principle, services (like goods) can be delivered to foreign markets either through FDI or trade. However, as already observed, unless embodied in goods, services are inherently non-storable, and their production and consumption have therefore to occur in the same place and at the same time. This basic characteristic suggests that FDI would be the predominant mode for delivering services to customers abroad. Since trade in services is a subject of international policy discussions, this section examines the relative importance of FDI and trade in delivering services to foreign markets.

Several factors have to be considered:

- First is the role of regulations. As documented in chapter VI, many service industries have traditionally been regulated in many countries. Although such regulation can have the effect of decreasing trade and increasing FDI (for example, when foreign insurance firms are required to establish local affiliates if they wish to do business in a given country), the typical pattern of regulation is to exclude or restrict FDI. Many developed and developing countries do not permit FDI in such industries as telecommunication, the mass media, inland shipping and air transport, and banking is typically very restricted.
- In a few industries, trade is particularly important because of the nature of the services provided. Thus, international air travel and shipping are (when carrying foreign cargo or passengers and no foreign ownership is involved) by definition (invisible) trade. In these industries, the trade component is further strengthened if, because of regulation, domestic air-travel facilities and cabotage are closed to foreign ownership.

Which of these factors dominates in a given industry and for a particular home country is difficult to say. In the case of the United States, three distinct groups of service activities can be identified (table I.11).

- Those in which FDI is the major way of delivering services to foreign markets: leasing, advertising, investment banking/brokerage, accounting, insurance, data processing, engineering and retail trading;
- Those for which exports prevail: travel, franchising and licensing (all three of which are considered to be trade by definition), education and legal services;
- Those that fall between the first two groups, that is, for which both exports and FDI appear to be important: transportation, communication, construction, film rentals, health, information, consulting and software.

Box I.3 International health

Although of minor importance for statistics on FDI in services and by many perhaps considered last on the list of industries competing in the international market, the health-care industry has recently begun to expand abroad as well. Leading are corporations from the United States, whose overseas for-profit hospitals increased more than five-fold in the past decade.

As the accompanying table shows, 125 foreign-operated hospitals had been established in 19 countries by the end of 1986, whereas only 19 such operations existed in 1978. Of the small number of transnational hospital corporations which operated those hospitals, 10 were based in the United States and accounted for 103 hospitals in 18 countries. The only non-United States proprietary firm, Paracelsus Corporation (Federal Republic of Germany), accounted for 22 hospitals, many of them located in the United States.

TNC involvement in the field of health care has concentrated in four regions – the Middle East, Western Europe (especially the United Kingdom), the Pacific Area, and the Americas. The countries in which these hospital chains invest are ones in which demand for health care is high, the competition weak and, hence, the potential for profit high. Transnational hospital firms are also successful where local health services are inadequate. Since their charges are normally higher than those of national hospitals, they are primarily patronized by the more affluent parts of society -- which, in turn, may decrease pressures for upgrading national health facilities. Where national health-care systems are safe, affordable and efficient enough to meet the demands of the people (as in Canada, the Federal Republic of Germany, Japan, New Zealand and the Scandinavian countries), transnational hospital corporations have not set up operations.

Transnational hospital corporations are, for the most part, interested in owning the hospitals which they operate. Although a substantial share of the hospital chains were involved in non-equity ventures in 1986 (see accompanying table), the majority of those firms' resources were directed towards ownership (except Summit Health Limited, which has devoted itself exclusively to the management of hospitals). Of the 125 hospitals listed for 1986, 81 per cent were owned and 19 per cent managed.

Of the little that is known about the profit dimensions of these corporations, the recent track record shows them to be modestly profitable, capturing greater profits every year. One of the leading

The services listed here are, of course, broad categories, often representing clusters of different services. If they were disaggregated, many might be classified differently.

On a more aggregate level, data are available for the United States and the Federal Republic of Germany. For the United States, FDI is clearly a more important vehicle than trade in delivering services to both foreign markets and the United States market. In 1982, United States exports of private non-factor services amounted to $32 billion, compared to $183 billion of sales of United States service affiliates abroad. Similarly, United States imports of services amounted to $33 billion, compared to $125 billion of sales of foreign affiliates of non-United States TNCs in the United States; [7] by the same token, this means that FDI is also more important for other countries in delivering services to the United States market (UNCTC, 1987b). In the case of the Federal Republic of Germany, the sales of foreign affiliates, classified in service industries, were, in 1984, DM 65 billion, while exports amounted to DM 57 billion.[8] Between 1976 and 1984, the sales of

[7] All sales figures exclude sales of wholesale affiliates, which are very substantial and involve mainly goods.

[8] Calculated from *Statistische Beihefte zu den Monatsberichten der Deutschen Bundesbank*, various issues; and *Statistisches Jahrbuch für die*

firms in the industry, Hospital Corporation of America, recorded profits from its international ventures of over $9 million in 1986. If these profits are suggestive of things to come, it seems that foreign-operated hospitals and health-care services are here to stay.

Number of hospitals operated by transnational hospital corporations, 1978-1986

Company	Home country	Year					Type of involvement 1986 (percentage)	
		1978	1981	1983	1985	1986	Owned	Managed
American Medical Intl.	US	8	20	25	33	29 [a]	69	31
Charter Medical Corp.	US	--	1	3	4	5	60	40
Community Psychiatric Centers	US	--	2	3	7	7	100	--
Hospital Affiliates Intl.	US	1	--	--	--	--	--	--
Hospital Corporation of America	US	5	17	27	31	33	79	21
Humana Corp.	US	3	3	4	4	4	100	--
Hyatt Medical Enterprises [b]	US	2	--	--	1	2	100	--
National Medical Enterprises	US	--	3	3	5	5	80	20
Paracelsus Healthcare Corporation	FRG	--	--	13	19	22 [c]	100	--
Ramsay Hospital Corp.	US	--	--	--	9	10 [a]	100	--
Summit Health Ltd.	US	--	--	--	--	5	--	100
Universal Health Services	US	--	--	--	1	3 [d]	100	--
Whittaker Corp.	US	--	5	8	--	--	--	--
Total		**19**	**51**	**86**	**114**	**125**	**81**	**19**

Sources: Milton Roemer, "Foreign privatization of national health systems", *American Journal of Public Health*, 77 (October, 1987), pp. 1271-1284; and Federation of American Hospital Systems, *Directory of Investor-Owned Hospitals and Hospital Management Companies* (Little Rock, Arkansas, Federation of American Hospital Systems, 1987).

a One hospital still under construction.
b Hyatt Medical Enterprises became Nu-Med, Inc.
c Two hospitals still under construction.
d All hospitals still under construction.

foreign affiliates of TNCs headquartered in the Federal Republic of Germany appeared to have increased at a much faster pace than exports, namely by a factor of about 3.5, compared to 2 for exports. Thus, for the Federal Republic of Germany trade and FDI in services appear to be about equal in importance in delivering services to foreign markets.

Given the nature of the data available, these ratios permit only rough comparisons. Firstly, trade data are incomplete and omit many service transactions. Second, sales data refer to total sales of foreign service affiliates and thus overestimate sales of services by the extent to which service affiliates sell goods; this is particularly true for trading affiliates (the figures given above include sales by retail affiliates, but exclude sales by wholesale affiliates). On the other hand, the data are likely to omit most of the services sold by industrial companies. A third major problem arises in connection with international banking and other financial services. For instance, the sales of United States banks and financial affiliates (measured by total income) weigh heavily in the total sales of all United States service affiliates; in 1982, they amounted to $101 billion, or 55 per cent of the

Bundesrepublik Deutschland (Stuttgart, Kohlhammer, various years). These figures include sales by retail affiliates abroad, which are estimated at 15 per cent of the total sales of all trading affiliates.

Table I.11 United States: ratio of exports to total foreign revenues, [a] selected activities, 1983

Industry	*Ratio*
Travel	1.00 [b]
Franchising	1.00 [b]
Licensing	1.00 [b]
Education	0.98
Legal	0.95
Health	0.61
Transportation	0.61
Construction	0.61
Information	0.50
Telecommunications	0.50
Motion pictures	0.50
Management/consulting	0.45
Software	0.40
Engineering	0.25
Insurance	0.22
Data processing	0.17
Investment banking brokerage	0.16
Advertising	0.15
Leasing	0.14
Accounting	0.08
Retailing	-
Total	**0.41**

Source: United States, Office of Technology Assessment, *Trade in Services: Exports and Foreign Revenues* (Washington, D.C., 1986), p. 43.

a Exports plus sales of foreign affiliates.
b Exports equals foreign revenues by definition.

total. Since interest payments are considered factor payments, they (like the profits earned on FDI) are excluded from trade in services. Therefore, narrowly-defined trade data do not contain an item corresponding to the sales of banking and finance affiliates. If interest payments were added to United States service exports, the ratio of sales of foreign affiliates to exports would fall substantially, from 6 to 1, to 2-3 to 1.

It is difficult to generalize from these data to the situation in other countries. However, it is likely that the export/foreign-affiliate-sales ratio of such an established investor country as the United Kingdom is closer to that of the United States, while that of Japan is probably closer to that of the Federal Republic of Germany. In addition, two other important caveats have to be made. First, this pattern (at least as far as the export of services is concerned) applies only to developed market economies, because the volume of FDI originating in socialist and developing countries is very small -- as are, therefore, the sales of their foreign service affiliates. By contrast, sales by foreign affiliates in developing countries may well be greater than services imports. Second, the estimated relative importance of trade and FDI varies considerably across industry (see the discussion earlier) and country.

Thus, although FDI is clearly more important than trade in many individual service industries, this pattern is not necessarily reflected in aggregate comparisons between FDI and trade in services for all countries. What is clear, however, is that FDI at least rivals trade in importance for delivering services to foreign markets, and this in spite of widespread restrictions on FDI in services.

The growing application of new data-technology-based information technologies, and especially the increased use of transborder data flows, are likely to change this picture. As mentioned earlier, the intangible and non-storable nature of many services requires that their production and consumption occur in the same place and at the same time. By collapsing time and space (at decreasing costs), the new data technologies make it possible for certain services to be produced in one place and consumed simultaneously in another. For example, a number of banking transactions can now technically take place wherever computer terminals or automated teller machines are connected to a bank's network. The physical presence of customers in the bank to transact business is no longer necessarily required. In other words, the tradability of certain services has increased. This gives suppliers and customers greater flexibility to choose whether to deliver or obtain certain services through affiliates or through trade. The result may well be a decreased need for FDI in certain service industries.

The increasing use that TNCs make of transborder data flows for their own internal transactions suggests that a growing volume and number of services are, indeed, capable of being delivered via transnational computer-communication systems, that is, have become tradable (table I.12). Financial management, in particular, is now heavily dependent on transborder data flows, but other corporate functions are also increasingly dependent on the international (intra-company) use of data services. The services that are currently being provided within TNCs can, at least in principle, also be made available outside those corporations. It may only be a question of time before the proc-

esses of differentiation, specialization and standardization of knowledge lead to the emergence of economies of scale which make it economically feasible to take the provision of these services out of their corporate framework and to place them into the international market place. That, in turn, would create a considerable potential for an expansion of trade in services. [9]

The increased application of data services can, however, also stimulate FDI in a wide range of service industries, especially information-intensive ones. The reason is that the use of transborder data flows makes it easier to establish service affiliates abroad which are linked to their parent corporations in an interactive manner via transnational computer-communication systems. The bulk of the value-added can thus take place either in the parent corporation or the affiliate (or both), depending on demand and the technical infrastructure. For most TNCs headquartered in industrialized countries, the tendency is most likely to be to utilize the facilities in the home country or in major affiliates in other industrialized countries. As a result, these foreign service affiliates require little FDI, because the bulk of their value-adding activities is being undertaken on the infrastructure of the parent corporation in its home country. The affiliates themselves are, in these instances, mere outposts -- in the extreme case, they are no more than offices with terminals. For TNCs headquartered in developing countries, on the other hand, it may well be that foreign affiliates in industrialized countries provide the principal facilities for the production of services, at least those of a more sophisticated nature. If such a pattern should prevail, the result could well be a concentration of the production of certain services in developed market economies.

This observation underlines the importance of the technical infrastructure. The potential of the new data technology can only be realized if the infrastructure for the utilization of transborder data flows for the purpose of trading services exists (and this infrastructure is particularly weak in many developing countries) and if a regulatory environment is in place which is as free as possible from restrictions to transborder data flows. Such an environment is not only important to those which are best placed to benefit from an increased tradability of services, but also to TNCs for which transborder data flows are becoming the infrastructure for their international operations. At the multilateral level, the discussion of these issues is embedded in the broader negotiations on an international framework for trade in services being carried out in the Group of Negotiations on

Table I.12 Assessment of importance of transborder data flows by corporate activity and region, 1983 and 1988 [a]
(Percentage)

Corporate activity	*1983*	*1988* [b]
Financial functions		
Financial management	60	73
Invoicing	32	38
Paying	28	32
Portfolio management	16	21
Foreign exchange and management	11	16
Marketing and distribution		
Ordering	36	40
Marketing and distribution	35	46
After-sales services	23	26
Customer services [c]	16	16
Pricing information	3	6
Production		
Inventory control	34	44
Manufacturing	30	39
Sourcing	17	27
CAD CAM CAE	12	23
Product quality testing	10	15
Management		
Strategic planning	25	37
Management information	19	26
Electronic mail	7	10
Research and development		
Research and development	23	33
Design engineering	15	15
Personnel		
Payroll, personnel	18	23
Total number of firms	**89**	**89**

Source: Business International, *Transborder Data Flows: Issues, Barriers and Corporate Responses* (New York, Business International, 1983).

a Percentage of companies that consider transborder data flows to be important or very important for specified corporate activities.
b Projected.
c Applies to banking, finance, transportation and information service companies.

9 For further discussion, see Sauvant, 1986.

Services established under the Uruguay Round. [10] The results of those negotiations are likely to be of crucial importance for the growth of trade and FDI in services, and the relative ease with which these two modes of transactions can be used to bring services to foreign markets.

D. Summary

Between the mid-1970s and the mid-1980s, a considerable and accelerating expansion of FDI in services, both in absolute terms and relative to other sectors of investment, had taken place. By the mid-1980s, FDI in services accounted for about 40 per cent (approximately $300 billion) of the world's stock of FDI and some 50 per cent (approximately $25 billion) of annual FDI flows. This growth of the services sector can be observed in the outward and inward FDI of most developed market economies and, to a lesser extent, the inward FDI of developing countries. Finance- and trade-related services were the most dynamic and important industries in this change of the sectoral composition of FDI.

Although this pattern is a broad one, it contains a number of important variations. The growth in inward and outward investment in services has been particularly marked in the case of the major capital exporting countries. In the case of the United States, services FDI was primarily responsible for making that country the largest host country for FDI during the early 1980s; in the case of the Federal Republic of Germany, virtually the entire balance of all new acquisitions and establishments by foreign TNCs between the mid-1970s and mid-1980s was in the services sector; and in the case of France, the data even suggest that foreign investment in the country's services sector was accompanied by a decrease in investment in the industrial sector. For the developing countries, two sets of data (those on the sectoral composition of the inward FDI of a selected number of developing countries and those on the country distribution of outward services FDI of two major capital exporting countries, the United States and Japan) suggest that those countries have also experienced a relative increase of services FDI. However, a large proportion of that increase was concentrated in financial centres, tax havens and countries offering flags-of-convenience arrangements. Although the activities involved are services, they are of a special nature in that they are not integrated in the economy of the host country. Once these investments are omitted from consideration, the increase of services FDI in developing countries is modest.

Finally, at the aggregate level, FDI is at least as important as trade as a means of delivering services to foreign markets. For some individual countries (including the United States), FDI is, in fact, clearly the more important of the two modes of delivering services to foreign markets. Given the intangible and non-storable nature of many services, this is not surprising. In the light of this, it appears that any effort aimed at establishing a framework for international transactions in services ought to pay due attention to FDI in services.

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[10] For the OECD countries, the Declaration on Transborder Data Flows constitutes the first step towards the establishment of such a framework.

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II. TRANSNATIONAL CORPORATIONS IN SERVICES

The preceding chapter has dealt, at the aggregate level, with the growth of FDI in services. The present chapter focuses on the firms which invest in services activities abroad and hence bring about the growth of FDI in services. As will be seen, industrial firms are quite important among them, and section A documents the extent to which this is the case. The bulk of this chapter deals, however, with transnational service corporations and their characteristics, that is, those parent corporations whose primary activity consists of the provision of services.

A. Investment in services by industrial transnational corporations

Not all FDI in services is undertaken by enterprises which are themselves service corporations. On the contrary, a sizeable number of industrial corporations operate foreign service affiliates. Reference has already been made to finance- and trade-related affiliates established by industrial corporations. Many other examples of industrial companies engaging in foreign service markets exist. In fact, many firms classified as manufacturing firms are among the largest producers of services. The presence of those companies in the services sector is motivated by many factors. One is cost-decreasing and market-oriented vertical integration. For example, some oil companies operate their own tanker fleets and gas stations. In such industries as telecommunication and computer manufacturing, extensions into data services, such as data processing and software, are obvious. In the automobile industry and some durable goods industries, manufacturers have set up finance affiliates to provide credit to customers, and those affiliates have expanded to supply other financial services for the external market. Other manufacturers have expanded service divisions like R&D, engineering, marketing advice, telecommunications and software development into separate, autonomous profit-making operations which cater to outside customers. Since the markets for many modern services grow rapidly, some manufacturers have taken over service companies unrelated to their major activity, in search of new areas of future growth.

At an aggregate level, only a few countries publish data which shed light on the extent to which industrial TNCs engage in services FDI, and on how numerous and important these activities are relative to those undertaken by service TNCs (table II.1). Data are available for Japan, the United Kingdom, the United States, and the Federal Republic of Germany. For the United States, they show that about half of all foreign service affiliates in 1982 were owned by industrial companies, a ratio that did not change between 1977 and 1982. In the case of Japan, however, while virtually all foreign service affiliates were owned by service TNCs in 1977, one quarter of service affiliates (excluding banking and insurance) were connected with industrial firms by 1984. Clearly, therefore, many industrial TNCs have established foreign service affiliates. That conclusion is confirmed when asset data for key United States industries are examined (annex table A.7). Thus, in 1982, only 13 per cent of the assets of wholesale trading affiliates were controlled by parent firms whose main activity was wholesale trading, while 77 per cent were owned by manufacturing and 5 per cent by petroleum corporations. Similarly, only about one third of the assets of foreign affiliates in finance-related services (excluding banking), real estate and business and other services were held by parents in the same industry. In the United Kingdom, only one fifth of the FDI stock of foreign trading affiliates was controlled by parent firms in trading. The picture is less clear-cut for Japan: of the 1,863 foreign trading affiliates, slightly over half belonged to manufacturing parents in 1984. It is noteworthy that the same pattern does not apply to foreign industrial affiliates: the overwhelming number of these (in the case of the United States and the United Kingdom no less than 96 per cent) are owned by industrial parents.

Not surprisingly, then, the relative importance of FDI in the services sector is greater when measured in terms of the main activities of foreign affiliates than that of their parent companies -- or, more particularly, the activities of these companies in their home country (table II.1). Data for the Federal Republic of Germany reveal that, in 1985, service TNCs controlled nearly one third of the total stock of outward FDI while service affiliates accounted for 48 per cent of that stock. The same is true for the United States and the United Kingdom, the only other home countries for which similar data exist. In the case of the United States, service parents controlled less than one fifth of the

Table II.1 Service and industrial transnational corporations, selected home countries

Item	United States[a]						Federal Republic of Germany[b]		Japan[c]		United Kingdom[d]
	Excluding banks			Including banks							
	1977	1982	1984	1977	1982	1984	1976	1985	1977	1984	1981
Number of TNCs											
Total	3 078	2 008	1 995	3 189	2 141	..	2 589	3 963	1 223	1 488	..
Services	1 093	690	673	1 204	823	..	1 097	1 863	409	541	..
Number of affiliates											
Total	23 219	17 123	16 751	24 666	18 339	..	9 059	14 964	3 589	4 937	..
Controlled by service parents	5 870	4 058	3 943	6 838	5 119	..	..	..	1 538	1 916	..
In services	12 711	9 457	9 085	13 595	10 339	..	5 258	9 429	1 586	2 671	..
Stock of FDI as a percentage of total FDI											
Controlled by service TNCs	18	14	..	21	19	..	29	32	..	..	24
In services	37	33	31	41	38	37	42	48	38	52[e]	34

Sources: UNCTC, based on official sources.

a Excluding non-business entities. The Netherlands Antilles are not excluded from FDI stock. The substantial decline in the total number of United States TNCs and their affiliates is a result of changed reporting procedures. The cut-off point below which full data for affiliates do not have to be reported was increased from $500,000 in 1977 to $3 million in 1982 and to $10 million in 1984.
b Excluding individuals.
c Excluding banks and insurance companies.
d Excluding oil, banking and insurance.
e 1985.

country's outward stock of investment in 1982, while the total stock of investment attributable to service affiliates was twice that share. The figures for the United Kingdom are, respectively, 24 per cent and 34 per cent. The considerable discrepancies in these figures illustrate the degree of involvement of industrial corporations in services FDI: in both countries, industrial corporations account for 30-50 per cent of all FDI in services.

Although service TNCs are responsible for only a part of the upsurge of FDI in services, they constitute a sizeable group of companies among all TNCs (table II.1). In the case of the Federal Republic of Germany, nearly half of all TNCs headquartered in that country were in the services sector in 1985; in the case of Japan and the United States, the corresponding ratio was approximately one third. The subsequent discussion in this chapter deals with service TNCs only.

B. Transnational service corporations

Trading houses, banks and land companies were among the first companies to establish foreign affiliates. In the 1870s, the first wave of industrial firms expanded abroad, although there was also some FDI in railroads and public utilities, particularly in colonial territories. For most of the following century, the activities of industrial TNCs overshadowed those of their services counterparts. But during the 1970s, a new trend gathered strength, based on a dynamic interaction between the production of services and that of goods, a dramatic advance in organizational and communications technology, and changes in the international political and economic environment. Initially, it was chiefly the demand generated by TNCs in primary and manufacturing industries and the rapidly growing international trade in goods and technology that prompted domestic service companies to invest abroad. Subsequently, the demand of local customers became an independent motive for FDI. As a result, many service companies which followed their industrial counterparts abroad had become transnational actors in their own right by the beginning of the 1980s. This dynamism was, of course, restrained in many industries by laws and regulations of many host countries which, until recently at any rate, restricted

the amount of FDI in services[1] (see chapter VI).

The determinants of the growth of TNCs in services and the role of laws and regulations are examined in detail in subsequent chapters. This chapter deals with some principal characteristics of TNCs in some of the most important service industries. It is based on an analysis of the 15-30 largest (domestic and transnational) firms in 16 service industries (annex tables B.1 - B.16), supplemented by other data. Although this coverage is not complete, most of the industries in which the bulk of transnational activity takes place are included. The data which have been collected are far from perfect, [2] but they do permit some useful general characterizations of TNCs in the services sector. Unlike it is usual in the case of industrial TNCs, a list of the world's largest service companies has not been compiled, because any list based on assets or revenues would inevitably consist mainly of trading companies, banks and a few insurance firms. Many companies in other service industries which are TNCs would not appear in it because they are small, although they can have considerable impact in their industries and host countries.

1. Propensity to transnationalize

Despite a wide range of restrictions on FDI in the services sector and the fact that many services do not easily lend themselves to transnational activities (due, for example, to the lack of technological or other advantages of TNCs *vis-à-vis* indigenous firms), TNCs can be found in almost all service industries. However, their incidence and relative importance in each varies greatly. While in some industries their presence (at least among the larger firms) seems to be the rule, in others it is an exception, while in others again they coexist with domestic firms.

Data for insurance (*Sigma,* 1985) and banking illustrate this situation. At the beginning of 1985, there were 11,152 private insurance companies world-wide. Of these, 2,331 were TNCs, with over 2,300 foreign affiliates. Half of all insurance firms were headquartered in the United States alone. However, only 77 of the latter had assets of more than $10 million abroad. A rough comparison of the assets of the 10 largest United States insurance companies (listed by *Fortune)* with the total assets of all insurance TNCs in the United States shows that the largest 10 account for somewhat more than half of total assets and somewhat more than two thirds of foreign affiliates. Those are rough estimates only, among other reasons because some insurance companies belong to diversified financial service companies; American Express is an example (box II.1). In banking, the overwhelming majority of all banks are also domestically oriented. Several hundred banks from developed and a few developing countries have foreign affiliates, but only a few of those banks dominate transnational banking. These exert significant influence, not only in home and host countries, but in the world market as a whole (see chapter III). Furthermore, given the central role of banking in any economy, the impact of transnational banks transcends the boundaries of their own industry. Similarly, in retail trade and construction, TNCs coexist with large and small domestic firms.

If large companies only are examined, the situation differs from industry to industry. Most of the world's largest service companies in the 16 industries listed in table II.2 are TNCs. Even when domestic companies are found among the largest (for example, in insurance, retail trading, and hotels), they are in a minority. At the same time, the extent of foreign investment by TNCs varies considerably between industries. In some (for example, retailing), the majority of TNCs has 10 or fewer foreign affiliates; in others (for example, accounting, trading), it is not uncommon for TNCs to have over 100 affiliates. Overall, while 304 of the 345 firms covered in table II.2 have at least one affiliate abroad, one third have at least 10 foreign affiliates, and only 65 companies have more than 100.

The industry propensity to transnationalize, and the extent to which only a few TNCs account for the lion's share of international activities, can

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1 It should be noted that restrictive domestic regulations of some home countries may encourage FDI abroad. Regulations pertaining to reporting, reserve requirements and taxes, as well as regulations prescribing a narrow range of activities (for example, the Glass-Steagall Act in the United States and similar regulations in Japan), led a number of banks to set up foreign affiliates abroad.

2 One reason why data on service TNCs are difficult to obtain is that many of them are privately held and, therefore, do not disclose financial data. The importance of service firms among privately held companies is indicated by data for the United States, which show that some two thirds of the largest privately-owned firms are in services (see Kichen and Ozanian, "The largest private companies in the USA", *Forbes* (17 November 1986), pp. 191-216).

Box II.1 American Express: a diversified financial service company

(Revenues in millions of dollars)

International banking services	*Financial services*	*Travel-related services*
American Express Bank	*IDS Financial Services*	*American Express Travel-Related Services*
- private banking *- trade finance* *- correspondent banking* *- treasury and foreign exchange* *- merchant banking* *- military banking*	*- insurance* *- investment certificates* *- mutual funds* *- annuities* *- tax-advantaged investment* *- brokerage*	*- American Express card* *- travellers cheques* *- travel services* *- data-based services* *- merchandise* *- publishing* *- insurance*
Provided by: *16 United States affiliates* *71 foreign affiliates*	*Provided by:* *15 United States affiliates* *1 foreign affiliate*	*Provided by:* *26 United States affiliates* *32 foreign affiliates*
1986 revenue *Total : 1,685* *US : 229*	*1986 revenue* *Total : 2,395* *US : 2,392*	*1986 revenue* *Total : 5,951* *US : 4,662*

Investment services	*Insurance services*
Shearson Lehman Brothers	*American Express Life (activities reported in Travel-Related Services)*
- private-clients services *- investment banking* *- capital markets* *- asset management and real estate*	*Fireman's Fund Corp. (equity stock reduced to 27 per cent; activities reported in Corporate Expenses and Equity Investments)*
Provided by: *62 United States affiliates* *11 foreign affiliates*	
1986 revenue *Total : 4,600* *US : 4,298*	*1986 revenue* *Total : 330* *US : 245*

Source: UNCTC, based on annual reports.

Table II.2 Service transnational corporations and size of their foreign affiliate networks, by industry, 1986

Industry	Number of companies in the sample [a]	Domestic	TNCs	TNCs with				Data on affiliates not available
				1-10 affiliates	11-50 affiliates	51-100 affiliates	Over 100 affiliates	
Finance-related services								
Banking [b]	30	-	30	4	15	4	7	-
Securities and financial services	20	3	17	7	7	1	2	-
Insurance	30	4	26	10	8	6	2	-
Reinsurance	15	1	14	8	6	-	-	-
Trade-related services								
Wholesale trade	20	-	19	3	4	3	9	1
Retail trade	30	8	22	15	6	1	-	-
Business services								
Accounting	20	-	17	-	-	-	17	3
Advertising	20	-	16	3	5	4	4	4
Market research	10	1	9	5	2	2	-	-
Legal services	15	-	15	12	3	-	-	-
Construction	20	-	20	8	12	-	-	-
Other services								
Publishing	15	1	14	5	4	1	4	-
Transportation [c]	30	1	27	14	9	2	2	2
Subtotal	**275**	**19**	**246**	**94**	**81**	**24**	**47**	**10**
Airlines	25	-	21	4	9	3	5	4
Hotels	25	2	21	6	5	5	5	2
Fast-food and restaurant chains	20	-	16	1	3	4	8	4
Total	**345**	**21**	**304**	**105**	**98**	**36**	**65**	**20**

Source: UNCTC, based on annex tables B.1--B.16.

Note: This and the following tables are based on a broad definition of affiliates which includes branches; wholly-, majority- and minority-owned affiliates; offices (including representative offices of banks and offices of airlines); and non-equity units abroad (for example, units controlled through franchising or management contracts). The sub-total contains industries for which the regional distribution of affiliates (provided later) is available.

a Largest companies in the industry.
b Data are for 1985.
c Other than air transportation.

be further illustrated for a number of industries. In retail trading, eight of the 15 largest United States companies listed by *Fortune* are TNCs. Their combined sales amount to 62 per cent of the total sales of 52 retailing TNCs, and their assets to 73 per cent of total assets. These 8 TNCs have some 160 foreign affiliates, that is, 73 per cent of the foreign affiliates of all retailing TNCs. On the other hand, in advertising and accounting, all of the world's largest companies are transnational. At the same time, between 10 and 20 firms in those industries (as well as in market research, reinsurance, car rentals and fast-food chains) comprise the entire TNC contingent, and it would be difficult, if not impossible, to find other firms with significant transnational activities. Similarly, there are probably around 100 transnational hotel chains, but only 25 of them control four fifths of the hotels associated with these chains (UNCTC, 1982). In the hotel industry, furthermore, the significance of TNCs is largely limited to an up-scale subsector catering mainly to international business travel and tourism. A similar pattern applies in legal and consulting services: sophisticated TNCs geared primarily towards clients that are themselves TNCs operate side by side with separate or even sheltered domestic firms. While playing a dominant role in the former market, TNCs are of little consequence

in the latter. In many services, for example, restaurants and fast-food chains, economies of scale are not an economic necessity; here, the nature of the product supplied and the brand image give TNCs a competitive edge (see chapter IV). However, even if TNCs in those industries do not weigh heavily in most host countries, they may considerably influence local consumption patterns. In services in which economies of scale are important and companies are big, for example, telecommunication services, railroad transportation and public utilities, TNCs are rare because regulations typically reserve those industries for national companies, often in the form of public or private monopolies. Large domestic companies are, therefore, characteristic of those industries. But some of these companies have foreign affiliates either in their principal business line or in industries which are related; railways are an example (see box II.2). Finally, TNCs can also be found in many services which are not particularly known for their transnational activities; box II.3 briefly describes some of those firms.

Thus, although TNCs are found in all major service industries, the propensity to engage in foreign production is fairly uneven. Typically, only a handful of mostly large firms have world-wide networks of affiliates and account for most of an industry's transnational activities. Normally, many small and medium-sized domestic firms coexist with transnational firms. In many service industries, therefore, the process of transnationalization is determined mainly by a limited number of large TNCs. Many small and medium-sized national firms may, however, experience increasing pressures to become transnational, especially where economies of scale and international competitive advantages are involved and where they face foreign service companies entering their markets. If and when those factors should assert themselves, they could result in greater domestic concentration, while competition among TNCs could increase. They could also lead to the emergence of transnational business alliances, which are already a familiar feature in a number of manufacturing industries, but which are comparatively less frequent in the services sector: out of a sample of 1,050 international business coalitions (joint ventures, licenses, supply agreements and other long-term interfirm accords) established between 1970-1982, only 16 per cent involved firms in the services sector (Ghemawat, Porter, Rawlinson, 1986, pp. 345-364).

2. *Diversification*

If more of these alliances should arise, they could well be forged across several service activities, thus strengthening the trend towards diversification, which is already discernible in a number of industries. The diversification of industrial companies into services has already been noted at the beginning of this chapter and in chapter I, as has the (less frequent) diversification of some service firms into manufacturing and mining. But no less interesting is the growing diversification of service firms into other service activities. In some of the service industries under consideration, diversification is confined to a number of companies; in others it appears to be the prevailing trend.

Four particular cases of diversification may be distinguished.

- A few of the companies among the largest service firms are subsidiaries of companies whose main activity is in manufacturing. Examples include the third largest professional reinsurance company, Employers Re, which belongs to General Electric; although the former is not a TNC, the latter is. In fact, many service companies, large and small, are bought (and sold) by industrial companies or conglomerates which seek either to capture the economies of integration or better expansion and profit opportunities.
- Firms which at one time were mainly goods producers evolved into service producers; examples include Primerica (box II.4) and ITT (box II.5).
- There is a group of independent companies, whose main activity remains in one service industry, but which undertake some diversification into other industries. Prominent examples are the *sogo shosha,* whose domestic and foreign activities extend into manufacturing, mining, insurance and other financial services. Sears Roebuck, the world's largest retailing company, is another example; it diversified into insurance and financial services.
- Some companies have become so diversified that it is difficult, or impossible, to assign them to any single industry. The ex-manufacturing

Box II.2 Railways abroad

Most railways are state-owned and are normally considered to have their operations confined to their national territories. However, this impression is misleading (see annex table B.13). For some of them, indeed, their international interests are expanding. For instance, the Canadian National Railway System (controlled by the Government of Canada) owns Grand Trunk Corporation of Detroit, and Canadian Pacific Limited holds a majority share in the Soo Line Railroad Co. of Minneapolis. The Soo Line, in turn, acquired Milwaukee Road Railroad in 1985 for $571 million.

Railways also diversify into other industries (both at home and abroad), especially service industries. An example is the German Federal Railways (Deutsche Bundesbahn, DB). DB had total revenues of $13 billion in 1986, total assets of $35 billion and 272,800 employees. The organization is diversified, with 70 subsidiaries and non-equity arrangements with 291 companies. Fifty-two subsidiaries have been established in 30 countries. Most important among its affiliates operating abroad are Schenker and Co. GmbH (100 per cent owned by DB), a large trucking corporation, Interfrigo (10 per cent owned by DB) specializing in refrigerated trucking, and several other transportation companies. DB is furthermore involved in tourism, owning travel agencies such as DER (55 per cent owned by DB), and it has equity shares in several hotels in the Federal Republic of Germany. The company has also diversified into such industries as financial services, real estate, research, planning and consulting.

firm ITT is one such example; it is a firm which, under one roof, brings together activities which have little in common. Another, albeit different example, is American Express (box II.1), a diversified financial service company which brings together activities that belong to separate but related fields. Several other large financial United States TNCs with diverse operations and extensive foreign affiliate networks exist; they have been included in the lists of the largest insurance TNCs because their main base of operation is in insurance.

Diversification as a prevailing trend characterizes the (broadly defined) tourism industry and, more recently, the accounting and advertising industries. In tourism, transnational hotel chains are often linked to other companies. Some of them belong to conglomerates, such as ITT or Imperial Tobacco, and a few others are owned or controlled by tour operators. Most common, however, is the link between hotels and airlines -- the modern continuation of an old relationship between lodging and all kinds of transportation. The link is not new; it began as early as the 1940s and 1950s, when airlines started to acquire their own hotels to ensure their passengers' lodging at the destination. It was a period when tourist traffic outpaced existing hotel capacities. Later, airlines took an interest in hotels to increase their revenues. But the link is by no means a stable one. Several airlines have divested their hotel chains, the most recent example being the 1987 divestment of Hilton International and Westin which were linked with United Airlines through their parent firm, Allegis Corp.

Nevertheless, this link is natural enough to ensure a continuing (if not growing) involvement of airlines with hotels: since air traffic generates a demand for hotel rooms, the two activities can be the object of joint promotion campaigns and joint computerized reservation systems. With the growing importance of these reservation systems, a new trend towards multiple associations (one hotel with several airlines, or one airline with several hotels) has emerged and has become a significant phenomenon in the airline industry. As one study observed: "In the mid-1980s, airlines have plunged even more deeply into hotel relationships. Polygamous airline-hotel connections increased from a 1972 level of some 30 hotels to more than 1,200" (Lane, 1986, pp. 75-76). Linkages between airlines can also intensify. For example, United Airlines and British Airways decided to develop

Box II.3 Small but transnational

Chase Manhattan Bank, Mitsui & Co. and Saatchi & Saatchi are all well known transnational service corporations. But there are also many others that provide services abroad in industries which are normally not considered in the forefront of transnationalization and which, because of their small size, are less well known. Some examples are listed below.

Security, investigation and armoured transportation

Apart from its automotive, chemicals and plastics facilities, Borg-Warner sells information and protective services in six countries. Under the "Wells Fargo" and "Burns" trade marks, Borg-Warner provides a variety of guard and related security services to Governments and businesses. With its many foreign affiliates, the company is the largest private-contract guard-service operation in the world.

Maintenance and cleaning

Through a world-wide network of more than 3,700 franchises, ServiceMaster Limited Partnership provides cleaning and lawncare services to both commercial and residential customers.

Real estate

Electronic Realty Associates, a subsidiary of Commercial Credit Co. which is a wholly-owned subsidiary of Tamco Enterprises Inc., is a membership organization for licensed real estate brokerage firms. ERA provides the utilization of its registered trademarks and service marks and designs, logos, colours and colour patterns, business methods and the co-ordination of advertising programmes. Apart from its subsidiary in Australia, ERA operates through franchisees in Singapore and Japan.

Employment

Manpower, recently acquired by Blue Arrow, is a pioneer in the provision of labour services. It has affiliates in 33 countries, which account for more than half of its sales and assets, as well as three quarters of its profits. With more than 750,000 temporary employees, Manpower ranks among the largest employers in the world.

jointly United's Galileo computer reservations system for the European market and, in late 1987, to create a marketing alliance based on code-sharing. Under code-sharing agreements, airlines feed one another passengers, using the same code (for example, UA for United Airlines) for their connecting flights. As a result, both flights may appear higher on a computer reservations system display screen than each would individually, thus increasing the chances of each airline to be chosen by travel agents selling tickets.

Natural linkages also exist between airlines and tour operators and car-rental agencies. Often, these are not implemented through equity relationships, but rather through contractual agreements or co-operation arrangements. Apart from such connections, pure diversification motives also remain important, since many of the hotels or car-rental agencies belonging to airlines are in locations not served by the airlines involved. In the past decade, airlines (or their holding companies) have also entered into such businesses as warehousing, insurance and data processing.

Diversification is also the prevailing trend in the accounting industry. The largest United States accounting TNCs, in particular, have in recent years increasingly diversified into management consulting. Corporate-finance consulting, in

Box II.4 The times, they are a-changing

Once a leader in the rusty-metal container business, American Can Corporation (ACC) ranked 140 among the "Fortune 500 Industrials" in 1985. In 1986, however, ACC was no longer on that list. Instead, it ranked ninth on the list of largest diversified service companies and changed its name to Primerica. Half of its sales were generated by financial services, and virtually the entire rest by specialty retailing.

In 1981, the former American Can adopted a strategic plan for the redirection of its business. It aimed at leaving the capital-intensive manufacturing industry and moving into service-oriented business. First in this process of change was the establishment of a financial services affiliate to facilitate the restructuring process. That affiliate (and the subsidiaries which it acquired) turned out to be a source of great profitability for the firm by providing financial services for the internal restructuring and for clients not related to the company. Financial services have now captured the largest share of Primerica's activities, while such manufacturing products as paper and packaging have disappeared from the firm's business portfolio.

Today, Primerica's financial service activities consist of investment banking, security brokerage, insurance, mutual fund management and mortgage banking. Its retailing activities include the direct mail marketing of household merchandise and the store-based sale of sporting goods, pre-recorded music, video movies and audio equipment. The former ACC has transformed itself, in a mere five years, from a large manufacturing firm into a service company.

Although principally based in the United States (130 subsidiaries), Primerica also operates through 11 foreign affiliates in five other countries to provide its financial, insurance and retailing services at an international level.

particular, and the use of data technologies, now account for about one fifth of their total fees or chargeable hours, compared with only 12 per cent a decade ago (Berton, 1987). The expansion of those companies into this new area has been so dynamic that their market share in all management advisory services in the United States grew from an insignificant figure to nearly one third of the market by the mid-1980s (Noyelle and Dutka, 1987). As a result, over half of the top ten management firms in the United States are no longer primarily management firms (table II.3). Although most of the big accounting firms still obtain about half of their fees from auditing, they are increasingly becoming financial advisory and professional service companies. Similarly, some of the largest advertising agencies (for example, Saatchi & Saatchi) have targeted management consultancy as one of the areas in which they plan to expand. But much more common for advertising TNCs is the extension of their activities into such services as corporate or institutional advertising, public relations, market research and direct-mail advertising. Many advertising groups are now capable of providing their clients with an integrated package of business services.

In conclusion, diversification and integration in the services sector are encouraged because a number of services are closely interrelated and, therefore, offer certain economies of scope. The principal clusters that appear to be emerging include the following:

- Finance-related services: banking, financial services, insurance;
- Tourism and travel: hotels, airlines, tour operators, car rentals, perhaps railways;
- Data services: data processing, software, telecommunication services, information storage and retrieval; and
- Within professional services: accounting and management consulting; and advertising, market research and public relations.

These clusters are, of course, also interlinked. American Express, for instance, links finance-related services with tourism and travel. It is not inconceivable that, in the future, other clusters will

Box II.5 Full circle

The International Telephone and Telegraph Corporation was established in 1920 to provide telephone services outside the United States. Subsequently, it evolved into a firm which was mainly engaged in manufacturing. In 1984, it changed its name to ITT to underline its desire to depart from its traditional telecommunications-oriented image.

In 1979, ITT initiated an asset-redeployment programme to divest certain business, streamline operations, reduce debt and focus more sharply on selected industries. It began by selling a part of its foreign telecommunications assets and its coal, gas and oil producing and processing companies. In 1986, the remainder of its foreign telecommunication interests was sold, although the company retained a minority interest.

Apart from consolidating its balance sheet between 1982-1984, ITT utilized those funds to acquire firms (or shares in firms) in electronic mail and fibre optics, telecommunications software, data systems, and software and securities brokerage for its insurance group, The Hartford.

As a result, ITT's insurance operations, financial services, communications operations, information services, hotels and community development provided 65 per cent of its total revenues of $17 billion in 1986, compared with 27 per cent in 1979. ITT has thus changed from being primarily a manufacturing company to being primarily a service-providing corporation. In the process, ITT preserved its global network: 15 of its 52 principal subsidiaries were located outside the United States in 1986, and they generated 43 per cent of the firm's income.

Thus, after some six decades of operation, ITT returned to its roots as a service firm.

evolve as well, particularly in information-intensive industries.

3. *Home country and industry distribution*

Given that a few developed market economies dominate the world stock of services FDI, it is not surprising that almost all of the largest service TNCs are headquartered in these countries (table II.4): of the 304 service TNCs covered in this chapter, 45 per cent are headquartered in the United States, 22 per cent in Japan and 28 per cent in Western Europe, mainly in the United Kingdom, France and the Federal Republic of Germany. By the mid-1980s, these 304 TNCs had about 23,000 foreign affiliates (table II.4). Japanese corporations account for a smaller portion of foreign affiliates, only 11 per cent, compared with 61 per cent accounted for by the United States and 24 per cent by Western European corporations.

A closer look at individual industries and the number of affiliates reveals substantial differences among TNCs originating from major home countries. Although those of Japanese origin figure prominently among the world's largest service TNCs, their role is largely concentrated in the trade and banking industries which, together, account for about half of Japan's service TNCs and almost 85 per cent of their foreign affiliates. In other service industries, Japanese service TNCs (except perhaps for a few construction companies) are still little transnationalized in terms of both number of foreign affiliates and the foreign content of their operations. This is, however, changing rapidly, particularly in finance-related services. As chapter III will show, the 1980s have witnessed a remarkable expansion of Japanese banks and securities companies into foreign markets. Insurance companies are also increasingly going abroad, although at a slower pace: the number of foreign affiliates of six large Japanese insurance companies increased from 7 in 1980 to 33 in 1986. Although the transnational expansion of Japanese finance-related TNCs is still characterized in many instances by great caution (due, among other things, to limited international experience), it is growing rapidly, as can already be seen in the case of banking. That expansion is (and, most likely,

Table II.3 The ten largest United States management consulting firms, 1985

Name	Main line of business	Revenue		Number of professionals	
		Total (Millions of dollars)	Percentage abroad	Total	Percentage abroad
Arthur Andersen	Accounting	477	26	6 450	44
McKinsey & Co.	Management consulting	350	50	1 250	..
Towers, Perrin, Forster and Crosby	Management consulting	305	10	2 300	..
Price Waterhouse	Accounting	280	50	3 600	67
Booz, Allen & Hamilton	Management consulting	260	8	1 850	..
Mercer-Meidinger	Business and finance consulting	254	15	1 500	..
Peat Marwick Mitchell	Accounting	240	27	2 900	55
Coopers & Lybrand	Accounting	201	35	3 000	65
Wyatt	Management consulting	201	6	1 400	..
Ernst & Whinney	Accounting	188	27	2 125	56

Sources: *Consultants News*, September 1986; *Consultants and Consulting Organizations Directory* (Detroit, Gale Research Co., 198-); company directories and information supplied by firms.

will be) fuelled by a strong capital base generated by a large and profitable domestic market, a strong currency and a substantial balance-of-payments surplus. Other areas of potential Japanese expansion (apart from trading) include advertising, data services and fast-food. In advertising, the largest agency, Dentsu, increased the number of its foreign affiliates from 2 in 1980 to 11 in 1986. In the early 1980s, it expanded into the international market jointly with Young & Rubicam, but foreign billings still account for a negligible percentage of the agency's total billings. As in the case of many United States service TNCs 15 to 20 years ago, Japanese service TNCs are pulled abroad by the rapid foreign expansion of industrial TNCs -- their major home clients.

The position of United States service TNCs is strong by all measures in almost all the service industries under consideration. The most important exception is wholesale trading, in which no United States company is represented among the largest 20 firms. United States TNCs have the largest number of foreign affiliates in accounting, advertising, retailing, hotels and fast-food and restaurant chains, market research, legal services, and securities and financial services.

Western European companies are also well established among the largest TNCs in almost all the industries examined. They account for the largest number of foreign affiliates in banking, insurance and reinsurance, publishing, airlines and other transportation, and they rival Japanese TNCs in wholesale trading. Although Western European banks have the largest number of foreign affiliates, Japanese and United States banks are not far behind. In construction, all three are approximately equally strong.

When the composition of the largest service TNCs in the mid-1980s is compared to that of a decade ago, it is apparent that some significant changes have taken place. By the mid-1970s, the overall dominance of United States service TNCs among the world's largest TNCs was even greater than today. The change in banking is particularly remarkable. The largest United States banks lost their dominant positions among the largest world banks (ranked by assets) to the Japanese banks. Nevertheless, United States banks, along with some Western European banks, are still the most transnationalized -- much more so than their Japanese competitors, and not only in terms of the number of countries in which they operate, but especially in terms of the share of foreign operations in the total.

In other industries, the overall composition of the largest TNCs by major countries of origin has remained more or less stable. What has changed, however, has been the ranking of the largest companies in some industries. Faster growth of some Western European and Japanese companies has led to their rise to higher rankings in construction, publishing and retailing, at the cost

Table II.4 Transnational corporations in services and their foreign affiliates, by home country and industry, 1986

Industry	Number of TNCs					Number of foreign affiliates				
	Total	United States	Japan	Western Europe	Other developed market economies	Total	United States	Japan	Western Europe	Other developed market economies
Finance-related services										
Banking [a]	30	3	17	10	-	1 858	531	578	749	-
Securities and financial services	17	8	7	1	1	453	254	86	7	106
Insurance	26	10	7	9	-	933	392	33	508	-
Reinsurance	14	4	1	9	-	195	62	3	130	-
Trade-related services										
Wholesale trade	19 [b]	-	13	2	1	2 329 [b]	-	1 640	468	195
Retail trade	22	10	5	6	1	253	139	19	88	7
Business services										
Accounting	17	13	-	4	-	4 782	3 570	-	1 212	-
Advertising	16	9	2	5	-	918	738	17	163	-
Market research	9	7	-	2	-	209	123	-	86	-
Legal services	15	7	-	6	2	95	59	-	30	6
Construction	20	6	8	6	-	321	111	93	111	-
Other services										
Publishing	14	7	-	5	2	749	93	-	393	263
Transportation [c]	27	11	5	10	1	602	107	71	411	13
Airlines	21 [d]	10	2	6	1	1 615 [d]	414	103	933	56
Hotels	21	16	-	5	-	1 317	1 032	-	285	-
Subtotal	**446**	**95**	**65**	**75**	**8**	**13 697**	**6 585**	**2 540**	**4356**	**590**
Fast-food and restaurant chains	16	16	-	-	-	6 489	6 489	-	-	-
Total	**304**	**137**	**67**	**86**	**9**	**23 118**	**14 120**	**2 643**	**5 574**	**646**

Source: UNCTC, based on annex tables B.2--B.16

a Data are for 1985.
b Includes three companies from the Republic of Korea with 26 foreign affiliates.
c Other than air transportation.
d Includes one company each from Saudi Arabia and Singapore with, together, 109 foreign affiliates.

of United States companies. The most remarkable change in ranking took place in advertising (box II.6), where Saatchi & Saatchi (United Kingdom) has become the largest TNC after a series of take-overs of domestic and foreign companies. This may signify not only a quantitative but, above all, a qualitative change in an industry traditionally dominated by United States TNCs, competing at home and in host countries for the advertising budgets of their major clients, other TNCs. Since the clients in a given industry (for example, food) compete with each other (for example, by using the services of advertising agencies to promote their products), mergers and take-overs between the large United States advertising agencies seldom took place in the past for fear of losing clients. The emergence of transnational groups which incorporate some large, previously independent agencies may change this concept and lead to a situation in which the advertising needs of competing clients are met by agencies belonging to the same group. In Japan, for instance, this approach is not uncommon: Dentsu serves Honda, Nissan and Toyota.

Apart from banking and trading, insurance is

Box II.6 Transnational advertising groups

Since the mid-1980s, the advertising industry has been undergoing substantial changes, mainly through a series of take-overs. At the beginning of the 1980s, all the largest transnational advertising companies were based in the United States. (Japan's Dentsu was among the largest agencies, but it was almost entirely a domestic corporation.) By 1987, Saatchi & Saatchi (United Kingdom) had become the world's largest group, and WPP (United Kingdom) had joined the largest five groups. With Dentsu beginning to become more transnational, the international advertising industry was on its way to becoming more pluralistic.

This change, together with mergers and take-overs between United States companies, has led to a considerable increase of concentration among the world's 25 largest advertising agencies. While the five largest agencies accounted for about one third of the billings and income of the world's largest 25 agencies in 1976, this share had increased to nearly half by 1986. This increase of concentration was accompanied by a trend towards diversification. Today, the largest groups offer a number of related services in addition to advertising, including consulting, financial services, public relations and market research.

Finally, and perhaps an unavoidable result of concentration, a principle which had, in the past, been observed fairly strictly in the United States advertising industry is being eroded: individual advertising agencies no longer serve only one important client in a given industry. The wave of mergers and acquisitions has led to the emergence of a limited number of truly large agencies offering a broad range of services. As a result, the gap between those groups and the remainder of the industry may increase in terms of the ability to serve transnational clients.

The world's five largest advertising groups, 1986

		Gross income		*World-wide billings*			
Name	*Major agencies*	*Total (Millions of dollars)*	*Foreign (Percentage)*	*Total (Millions of dollars)*	*Foreign (Percentage)*	*Number of affiliates (1986)*	*Other activities*[a]
Saatchi & Saatchi (United Kingdom)	Saatchi & Saatchi DFS Compton Worldwide; Backer, Spielvogel, Bates; KHBB, William Esty; McCaffrey & McCall	1 210	78	8 260	48	103	Consulting and financial services
Interpublic Group (United States)	McCann-Erickson Worldwide; Lintas Worldwide; Campbell-Ewald Worldwide; Lowe, Marschalk, Dailey & Associates	971 [a]	55	5 550	54	138	
Omnicom Group (United States)	BBDO Worldwide; DDB Needham Harper Worldwide; Cargill, Wilson Acree, Tracy-Locke; Diversified Agency Services	822	25	5 820	28	83	Different facets of marketing communication.
WPP (United Kingdom)	J. Walter Thompson; Lord, Geller, Frederico, Einstein; Hill & Knowlton; MRB Group	682 [b]	..	4 300	33	172 [a]	Market research, P R, media, A-V materials, consulting, design.
Ogilvy Group (United States)	Ogilvy & Mather Worldwide; Scali, McCabe, Sloves Group; Cole & Weber	549	41	3 800	42	240 [a]	Market research, promotion.

Sources: Advertising Age, 26 March 1987 and 11 May 1987, *Who Owns Whom*, 1987 edition, *The New York Times*, annual reports and interviews with companies.

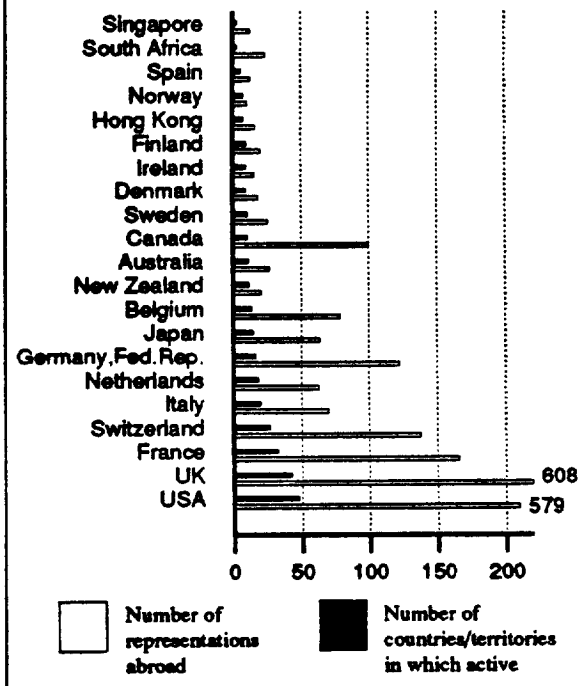
a February 1988.

b As J. Walter Thompson was acquired by WPP in 1987, the world-wide gross income for 1986 for WPP was calculated based on the world-wide gross income of the two entities for 1986.

an industry in which the process of transnationalization has gathered strength since the mid-1970s. At the beginning of 1985, 2,331 insurance companies had foreign affiliates. The major actors in that process were the largest United States and Western European companies, although a few firms from developing countries were also involved (see figure II.1). In the past, and with a few notable exceptions, United States insurance companies have focused their activities on their vast domestic market. Some companies had gone abroad in the 1960s to service the insurance needs of United States industrial TNCs which expanded in Western Europe and the Far East. Since, however, the United States insurance market has traditionally been broker-oriented, servicing the needs of TNCs did not always require the establishment of foreign networks, because much of this servicing could be carried out by the major United States insurance brokers. In the 1970s, a slow-down in demand and poor underwriting profitability in the domestic insurance market prompted the large insurance companies to expand their operations abroad with the purpose of securing a growing stake in overseas insurance markets, especially those in Western Europe (Dickinson, 1987). A few Canadian and Australian insurance companies followed suit.

The largest Western European companies that have already attained a large market share in their own domestic markets have been particularly active. For some of them, entry into other markets was the only way to expand faster than the growth of domestic markets permitted. In some cases, expansion abroad was further encouraged by national anti-monopoly laws which limit market shares. Examples include Allianz (Federal Republic of Germany), the Nationale Nederlanden (the Netherlands), Assicurazioni Generali (Italy), Baltica (Denmark) and Skandia (Sweden), all of which have been expanding rapidly, especially in each others' markets. Much of the expansion by the major Western European companies has been within Western Europe itself, but a number of companies have been tempted by the large United States market, where they have sought to secure a market niche. The two largest Western European insurance groups, Allianz and Nationale Nederlanden, have done so through acquisitions. Major United Kingdom insurance companies have traditionally had wide networks of affiliates, particularly throughout the Commonwealth countries, but also in the United States. Recently, they have focused more on the Western European and Far Eastern insurance markets.

Figure II.1 The transnationalization of the insurance industry
1 January 1985 a/



Source: *Sigma*, No. 11/12, November-December 1985

a/ Only countries with 10 or more foreign affiliates are included

The broad pattern of transnational expansion in insurance is illustrated by the geographical distribution of major mergers in the insurance industry between 1970 and 1983 (table II.5). Of the 149 cross-border mergers during that period, more than one third took place within the European Community; European Community companies acquired 20 insurance companies in the United States, while United States companies made 12 acquisitions in the European Community, half of them in the United Kingdom. European Community companies accounted for 60 per cent of all mergers.

Table II.5 Transnational mergers in the insurance industry, 1970-1983

Home country	Number of merged firms by host country				
	United States	European Community [a]	United Kingdom	Other	Total
United States	-	6	6	8	20
European Community [a]	14	20	20	8	62
United Kingdom	6	14	-	8	28
Other	13	2	11	13	39
Total	**33**	**42**	**37**	**37**	**149**

Source: G. M. Dickinson, "Changing international insurance markets: their implications for EEC insurance enterprises and governments", January 1987, mimeographed.

a Excluding the United Kingdom.

4. *Geographical distribution of foreign affiliates*

The broad pattern of the geographical distribution of foreign affiliates of the 246 largest service TNCs (excluding TNCs in air transportation, hotels and the fast-food and restaurant industry for which such data are not available) mirrors, with some variations, the pattern of FDI in services. In 1986, 8,459 (62 per cent) of the total number of the 13,697 affiliates identified here were located in developed market economies and 5,160 (38 per cent) in developing countries (table II.6).

Variations occur between service industries and TNCs. TNCs in insurance, reinsurance, retailing, advertising, market research and publishing tend to have an even larger concentration of their affiliates in developed market economies -- around 80 per cent (table II.7). At the other end of the spectrum are banks and construction TNCs with approximately the same number of affiliates in both developed and developing countries, and trading companies with more (58 per cent) affiliates in developing than developed countries. The figures for banks include not only branches and subsidiaries, but also representative offices, which do not carry out operations in the host country, but rather act as intermediaries or liaison offices between parent and local banks. Representative offices prevail in most of those developing countries which do not allow branches and subsidiaries in banking. In addition, a quarter of the banking entities in developing countries are located in offshore financial centres. The relatively large concentration of construction affiliates in developing countries reflects the fact that those countries still account for a high share of international construction contracts, despite shrinkages of markets in the Middle East and the indebtedness of many Latin American countries. The high proportion of trading affiliates in developing countries is largely explained by the locational preferences of the *sogo shosha:* 40 per cent of their 1,600 affiliates world-wide are located in the developing countries of Asia alone. Other major trading TNCs are companies involved in commodity trading or agency houses with many buying offices in developing countries (see chapter I). This overall pattern of the distribution of foreign affiliates was to be expected. Since industrial TNCs are mostly located in developed market economies, service TNCs which followed them abroad are also concentrated in those countries. At the same time, it must be recognized that the number of foreign affiliates does not necessarily reflect the size of the activity involved. Banks and trading companies, for instance, may only have representative offices, but they may have them in many countries.

A more detailed breakdown of the network of affiliates by home and host countries and subregions shows that the largest single host country for foreign service affiliates is the United States, which hosts over 1,200 out of the 13,700 affiliates of the largest 246 service TNCs. Western Europe is host to 35 per cent of the total affiliates. The number of affiliates in Japan (212) reflects minimal inward FDI in services. Asia is the largest host region to foreign affiliates of service TNCs among developing countries (47 per cent), followed by Latin America (37 per cent) and Africa (16 per cent). The number of entities in Africa is relatively high and does not correspond to the negligible volume of FDI in this region. Close to 30 per cent of the affiliates in Africa belong to two trading companies from Western Europe; accounting offices hold the same share, while one eighth is accounted for by banking affiliates (probably mostly representative offices).

While all major home countries have a substantial number of foreign affiliates in developing countries, the most important location for United States service TNCs is Latin America, followed closely by Asia. For Japanese TNCs, it is clearly Asia. Affiliates of Western European

Table II.6 Foreign affiliates of service transnational corporations, by country of origin and destination, 1986
(Number of affiliates and percentage)

Home country	Number of TNCs	Number of foreign affiliates: Total	Developed market economies	Developing countries	Distribution by home country (Percentage): TNCs	Total foreign affiliates	Developed market economies	Developing Countries	Geographical distribution of foreign affiliates (Percentage): Total	Developed market economies	Developing countries
United States	95	6 185 [a]	3 788	2 383	39	45	45	46	100	61	39
Japan	65	2 540 [b]	1 077	1 427	27	19	13	28	100	42	58
Western Europe	75	4 356 [c]	3 197	1 131	31	32	38	22	100	73	27
Other developed market economies	8	590	378	212	3	4	4	4	100	64	36
Total	**246** [d]	**13 697** [d]	**8 459** [d]	**5 160** [d]	**100**	**100**	**100**	**100**	**100**	**62** [d]	**38** [d]

Source: UNCTC, based on annex tables B.1--B.16.

Note: This table excludes airlines, hotels, fast-food and restaurant chains because data for the geographical distribution of affiliates are not available.

a Includes 14 foreign affiliates in centrally planned economies.
b Includes 36 foreign affiliates in centrally planned economies.
c Includes 28 foreign affiliates in centrally planned economies.
d Includes three TNCs from the Republic of Korea with 26 affiliates (19 in developed market economies and 7 in developing countries).

service TNCs are more evenly distributed among Africa, Asia and Latin America. Among host developed countries, Western Europe is by far the most important location for United States TNCs (67 per cent), Western European TNCs (50 per cent), Japanese TNCs (37 per cent) and TNCs from other developed market economies (60 per cent). The United States is the largest host country for affiliates of Japanese TNCs; in terms of absolute numbers, however, the largest group of affiliates in the United States -- 606 -- belongs to Western European service TNCs.

C. Degree of transnationalization

The number of foreign affiliates is a useful indication of the geographical spread of service TNCs. But, as a measure of the size of the transnational activity of TNCs and its share in total corporate activities, it can be misleading. In the case of services, affiliates are frequently offices, which do not produce services for sale in the host country, but rather perform a variety of other functions (for example, financial or trading intermediation). The data have to be interpreted, therefore, with great caution.

1. United States aggregate data

United States aggregate data suggest strongly that service TNCs are substantially less transnationalized than their industrial counterparts. By the mid-1980s, aggregate data show that the average foreign content of United States service firms (excluding banks) with FDI was quite low: only about 17 per cent of the total assets and sales, and 11 per cent of the total employment of these firms was abroad. By comparison, the level of transnationalization of manufacturing TNCs was approximately twice as high, and that of petroleum TNCs even higher (table II.8).

The average for all services hides, of course, substantial differences among individual service industries. TNCs in petroleum-related services, wholesale trading, construction, advertising and engineering services are clearly more transnationalized; for them, the shares of foreign affiliates in world-wide sales, employment and assets ranges from one fifth to one quarter on at least two measures. But, even in those industries, service TNCs lag behind manufacturing TNCs. The group with the lowest degree of transnationalization (around and below 6 per cent), as measured by assets abroad, includes companies in air (6 per cent) and railroad transportation (0.8 per cent), public utilities (4.8 per cent) and life insurance (3.2 per

Table II.7 Distribution of foreign affiliates of service transnational corporations between developed and developing countries, 1986
(Number and percentage)

Industry	Number of TNCs	Number of their foreign affiliates	Share (Percentage) in	
			Developed market economies	Developing countries
Finance-related services				
Banking	30	1 858 [a]	49	51
Securities and financial services	17	453	63	37
Insurance	26	933	73	27
Reinsurance	14	195	84	16
Trade-related services				
Wholesale trade	19	2 329 [b]	42	58
Retail trade	22	253	77	23
Business services				
Accounting	17	4 782	65	35
Advertising	16	918 [c]	80	20
Market research	9	209	78	22
Legal services	15	95 [d]	56	44
Construction	20	321	52	48
Other services				
Publishing	14	749	82	18
Transportation [e]	27	602	69	31
Total	**246**	**13 697**	**62**	**38**

Source: UNCTC, based on annex tables B.1-B.16.

Note: This table excludes airlines, hotels, fast-food and restaurant chains. Data for the geographical distribution of affiliates are not available.

a Includes 66 foreign affiliates in centrally planned economies.
b Includes 4 foreign affiliates in centrally planned economies.
c Includes one foreign affiliate in centrally planned economies.
d Includes 7 foreign affiliates in centrally planned economies.
e Other than air transportation.

cent). Strikingly low are also the figures for the hotel and accounting industries, although United States TNCs are well known in those industries. This is probably mainly due to the fact that the data used here include only foreign affiliates with equity participation and omit the non-equity forms of association which predominate in those two industries. In fact, consolidated company data for transnational accounting groups exhibit a very high foreign content.

2. *Foreign content of the largest transnational corporations*

Data measuring the foreign content of service TNCs (that is, the share of certain foreign-affiliate activities in those of a firm as a whole) are not systematically available for a large number of companies. Even where they are, they frequently do not distinguish the activities of foreign affiliates (especially sales) from those of parent corporations (especially exports). In some industries, foreign content data are available for physical units only (number of foreign hotels, hotel rooms or restaurant outlets). Nevertheless, some indications of foreign content exist for TNCs in a number of industries (see table II.9 and annex tables B.1, B.7, B.8, B.10, B.11, B.14, B.15 and B.16).

TNCs in accounting and advertising are exceptional with respect to the relative importance of their foreign operations. For 15 of the 20 largest *accounting* firms, the share of foreign in total fees exceeded 50 per cent in 1986. The eight largest United States firms accounted for 74 per cent of the total fees of the largest 20 firms. Although already highly internationalized, most of them experienced

Table II.8 Degree of transnationalization of United States non-bank transnational corporations, 1984 [a]
(Percentage)

Industry	Share of foreign affiliates in			Number of	
	Sales	Assets	Employment	TNCs	Foreign affiliates
All industries	**26.2**	**19.7**	**25.9**	**2 088**	**16 892**
Manufacturing	27.3	24.4	30.3	1 221	11 075
Petroleum	41.7	34.2	31.1	77	1 644
Other industries	25.3	21.7	39.7	24	98
Services	**16.6**	**11.3**	**16.9**	**673**	**3 943**
Finance, insurance, real estate [b]	**12.0**	**9.7**	**27.9**	**12 7**	**999**
Finance	16.3	13.2	14.6	34	227
Insurance	10.2	7.3	24.8	77	733
Trading	**18.0**	**14.7**	**16.5**	**217**	**904**
Wholesale	24.8	23.6	21.6	165	685
Retail	11.6	10.7	15.6	52	219
Transportation, communications, public utilities	**6.5**	**7.1**	**10.7**	**83**	**437**
Construction	**23.6**	**22.5**	**16.3**	**33**	**173**
Business and other services	**11.6**	**12.7**	**10.9**	**158**	**758**
Hotel	7.6	11.1	6.5	8	67
Advertising	20.3	24.2	29.4	22	179
Motion pictures	20.0	13.9	11.5	9	79
Engineering etc.	23.9	20.5	15.3	23	72
Management consulting and public relations	14.2	15.4	15.6	18	43
Equipment rental (excluding autos and computers)	3.2	3.8	8.1	7	7
Computer and data-processing services	10.3	11.9	8.9	13	37
Health	3.1	7.4	4.4	9	26
Accounting	..	5.3	..	6	31
Other	10.6	11.6	12.3	49	238
Petroleum-related services	**28.7**	**20.5**	**25.6**	**55**	**663**

Source: UNCTC, calculated from United States, Department of Commerce, *US Direct Investment Abroad: Operations of US Parent Companies and Their Affiliates. Preliminary 1954 Estimates* (Washington, Department of Commerce, 1986).

a Measured by the share of foreign affiliates in total TNC activities.
b Including holdings, excluding non-business entities.

a further increase in their degree of transnationality between 1977 and 1986. The number of countries in which they operate has increased as well (ranging from 50 to 100 in 1986), as has the proportion of their foreign offices, staff and partners, not to mention fees.

Even if a United States *advertising* agency is no longer the largest in the world, United States agencies are still dominant among the world's largest 20 agencies. Of their total revenues or billings, 30 to 55 per cent are derived from foreign operations, compared to 78 per cent for the leading United Kingdom agency, Saatchi & Saatchi. The two leading Japanese companies are mainly domestically oriented: in 1986, the largest one, Dentsu, had only 6 per cent of its billings and 11 affiliates abroad. Saatchi & Saatchi and the six leading United States agencies, on the other hand, have truly global networks (see also box II.6).

In 1986, the world's 20 largest *construction* TNCs consisted of eight Japanese, six United States, four French and one company each from the Federal Republic of Germany and Italy. Although construction companies from developing countries are playing an increasing international role, the largest of these companies, Hyundai

Engineering & Construction (Republic of Korea) ranked only twenty-ninth by volume of contracts. Differences in size among those companies are not great, and it would be difficult to draw the conclusion that TNCs in this industry are dominated by any particular country group. The foreign content of construction companies, measured by the share of foreign in total contracts won in a given year (which is not a perfect measure of transnationalization), exhibits variations ranging from 5 per cent (two Japanese and one United States company) to 73 per cent (one United States company). Time-series data on 16 companies, reaching back to 1980 and to 1978, do not show any clear trend in this respect. Nine companies experienced a relative decline in their foreign operations which, for some of them, was rather substantial. On average, United States and Western European companies rely on foreign contracts to a much higher extent than their Japanese competitors.

Figures for the international operations of the largest *airlines* capture mostly ticketing abroad. The pattern which emerges reflects the specific market structure of the airline industry. Most countries have one major airline operating international routes to and from the home country. Since in most countries international traffic is much heavier than domestic traffic, airlines of such countries derive most of their revenues (not infrequently exceeding 80 per cent to 90 per cent) from international operations. The major exception is the United States, with its large domestic market and intensive internal traffic. Ranked by revenues, the world's four largest airlines in 1985 were all of United States origin, but foreign operations accounted for only between 3 per cent and 9 per cent of their total operations.

All of the 20 largest transnational *fast-food* and *restaurant chains* were of United States origin in 1986. But their extent of transnationality (measured by the proportion of units abroad) ranged from 1 per cent to almost 30 per cent. A number of chains have established extensive networks over the past decade in a growing number of developed and developing countries. As will be documented below, their expansion is largely based on franchising contracts. Some others seem to follow a similar path. For the remaining companies, foreign operations are rather negligible, and probably mostly limited to neighbouring countries (especially Canada).

Some further observations can be made on the basis of the data in table II.9, although the selection of companies for this table is not a systematic one. For one, the largest banks of the United States belong to a group of companies with a high degree of transnationalization. Second, while, on average, service TNCs are clearly less transnationalized than manufacturing TNCs, many individual service TNCs are engaged in transnational operations to a no lesser degree than industrial TNCs. Finally, not in all industries does a clear relationship between the size and the degree of transnationalization exist.

D. Organizational forms of activities abroad

Like their manufacturing counterparts, most service TNCs, particularly large ones, engage in a wide range of equity and non-equity ventures and a host of quite specific co-operative arrangements. However, the characteristics of services, regulations of services FDI and the nature of competitive advantages of service TNCs over their local competitors sometimes impose a special and somewhat distinctive organizational structure on service TNCs:

- In numerous service activities, such as wholesale banking, reinsurance, trading, the distribution of audio-visual programmes, auditing and consultancy of all types, the use of offices is quite frequent. Those offices are often mere outposts, managed by a small number of skilled employees equipped with the necessary computer and telecommunications facilities. This sometimes leads to difficulties in distinguishing between trade, trade-supporting operations and FDI.
- International trade in such services as shipping and air transportation is usually facilitated by the establishment of foreign affiliates, ranging from small offices to large subsidiaries. Most airlines flying internationally operate their own marketing and booking offices in major cities to provide information, sell tickets, service travel agents, and undertake advertising and promotional campaigns. Air carriers must also maintain facilities at foreign airports for handling passenger traffic, baggage and freight and for cleaning and maintaining planes. Those services may be purchased from a local company or may be provided by an airline's own infrastructure. A similar situation exists

in shipping and wholesale trading.

- Transnational activities of some service TNCs are organized in a unique way, specific to a given industry. Accounting and auditing, dominated by eight companies originating in the United States, constitutes a prominent example. The industry's international operations are organized as more or less loose collections of largely autonomous partnerships; reflecting this organizational form, they are partnerships of partnerships. The transnational accounting TNCs created in this manner include national firms operating either under their own names or those of their parent companies. The national firms are owned and managed by citizens of the country in which they are located, but are linked to TNCs. Centralized activities consist mostly of setting operating standards, offering training, referring clients and, increasingly, providing a common data-service infrastructure, especially regarding the application of software. Accounting firms vary principally according to the extent to which they integrate and control the management of their global operations. In some cases, profits are shared, in others, the parent corporations merely receive fees for services rendered. Other arrangements include the representation of an international organization in certain markets by independent firms, and the temporary assignment of personnel for specific assignments in countries in which a firm has no permanent base. Along with those prevailing forms of organization, accounting companies also use foreign affiliates in which they have an equity stake.
- Non-equity forms of investment, such as franchising or management contracts, are widely used in such industries as hotels, car rentals, fast-food and retailing. In some of those industries, non-equity forms are the dominant form of international activity.

There are few comprehensive data on the incidence of non-equity forms and other contractual arrangements in service industries. It is, therefore, not possible to ascertain whether or not there has been a shift in the last decade from wholly- or majority-owned subsidiaries towards minority joint ventures and non-equity forms. FDI data for the United States, which make a distinction between majority- and minority-owned affiliates, show that the former are the predominant form among both manufacturing and service affiliates (table II.10) in developed and developing countries alike. Indeed, the prevalence of majority-owned affiliates in service industries is even higher than in manufacturing. The share of this type of affiliates in the total sales or employment of all affiliates was between 80 per cent and 90 per cent in 1984, compared to below 80 per cent for manufacturing. Both percentages are, however, lower in developing countries. It should be noted that these data capture only affiliates with foreign-equity participation; non-equity forms are not reflected by them.

Franchising is a type of contractual arrangement widely used by many United States service industries both at home and abroad in order to distribute brand-name services under licence: the franchisor provides the business system and trade mark, and the franchisee operates the business under the franchisor's name. In the case of product trade-name franchising, the supplier and dealer establish independent sales relationships, like those found in such industries as automobiles, soft drinks and gasoline service stations. Another form, and one that has been growing rapidly, is business-format franchising. It is characterized by a fully integrated, ongoing business relationship between franchisor and franchisee that includes not only the product, service and trademark, but the entire business format itself: a marketing strategy, operating manuals and standards, quality control, and continuing two-way communication. Restaurants, non-food retailing, personal and business services, rental services, real estate services, and a long list of other service businesses fall into the category of business-format franchising. In the case of the United States, 342 United States franchising companies operated 30,188 outlets in foreign countries in 1985, compared to 156 franchisors with 3,365 outlets in 1971 (figure II.2 and table II.11). More than four fifths of all franchising outlets were located in the developed market economies, with Canada alone accounting for nearly one third of the total. The highest number of outlets is in the restaurant business and in automobile and truck rental (each about one fifth of the total number of outlets), followed by business aids and non-food retailing. The annual fees generated by international franchising were estimated at around $1 billion in 1984, a fraction of United States domestic

Table II.9 Degree of transnationalization of selected service transnational corporations, 1986
(Percentage)

Company[a]	Foreign revenue [b]	Foreign assets	Foreign profit	Foreign employees
Finance-related services				
Banking				
J. P. Morgan	55	48	49	32 [c]
Bankers Trust, New York	50	57	22	18 [c]
Citicorp	47	47	49	48 [c]
Chase Manhattan	46	43	20	39 [c]
Bank America	37	37	..	19 [c]
Manufacturers Hanover	36	34	30	11 [c]
Bank of Boston	30	23	10	..
Chemical Bank, New York	29	29	26	6 [c]
First Chicago	28	28	..	..
Security Pacific	20	21	19	5 [c]
Securities and financial services				
American International Group	34	36	61	60 [c]
American Express	22	23	15	27 [c]
Merrill Lynch	11	12	..	..
Nikko Securities	5	33	12	8
Insurance				
Nationale Nederlanden	49	30	11	55
Continental Corp.	18	21	0.1	..
CIGNA	11	12	5	..
The Prudential Insurance Company of America	2	5	1	4
Metropolitan Life	1	8	9	13
Reinsurance				
Gerling Group	15	17	40	66
Prudential Reinsurance	3	4	3	10
Hanover Reinsurance	..	7	5	20
Trade-related services				
Wholesale trade				
Marubeni Corp.	40	18	23	..
Sumitomo Corp.	12	13	30	..
Retail trade				
F. W. Woolworth	42	43	34	..
Vendex International	31	..	..	21
Safeway	23 [d]	24 [d]	44 [d]	..
K Mart	9	8	..	..
Sears Roebuck	7	3	2	..

franchising sales, which amounted to almost $500 billion during the same year. These data alone indicate the growth potential of international franchising. Franchising agreements are sometimes accompanied by an equity participation in the franchisees' companies. Out of the total of 342 United States franchisors with international business-format franchising operations, 37 operated joint ventures in 1985, and 38 had wholly-owned units.

Franchising is the preferred modality of organizing transnational service activities wherever TNCs

Table II.9 (Continued)
(Percentage)

Company[a]	*Foreign revenue* [b]	*Foreign assets*	*Foreign profit*	*Foreign employees*
Business services				
Accounting				
Moore Stephens	87 [e]	..	..	83
Dearden Farrow International	86 [e]	..	..	84
Pannell Kerr Forster	79 [e]	..	..	76
DFK International	78 [e]	..	..	80
Spicer and Oppenheim	75 [e]	..	..	72
Market research				
Research International	66	..	..	63
AGB Research PLC Inc.	54	..	..	51
Information Resources	3	..	..	3
Consulting				
William M. Mercer-Meidinger Inc.	30	..	30	46
Hewitt Associates	2	..	..	6
Construction				
Société Auxiliare et Entreprises	40	..	..	36
Kajima Corp.	6	4	19	4
Other services				
Publishing				
International Thompson Organization	98	98	..	97
Tribune Co.	19	1	..	..
Airlines				
Pan Am	68	..	19	..
TWA	34	29	24	..
Allegis	15	7	16	..
Hotels				
Omni Hotels	6	10	..	6
Media				
Agence France Presse	52	..	..	33
Tribune Co.	19	15	12	16

Sources: *Forbes*, 27 July 1987, and UNCTC, based on company responses.

a Contains only firms for which data for at least two variables are available.
b Foreign revenue may contain export revenue, apart from sales of foreign affiliates.
c Data for 1985.
d Data for 1984.
e Figures for foreign fee income.

believe they can fully appropriate the economic rent of their assets in this way. Besides the kind of activities mentioned above, franchising is common in cleaning and laundry services, campgrounds, home improvement services etc. Virtually all personal and business services lend themselves to franchising; according to projections, this method of doing business is expected to advance rapidly in new areas both domestically and internationally. [3] Although large companies in virtually all industries have franchising relations abroad, franchising is a particularly convenient way for small and

3 "Franchising is still proving its validity as a marketing method", *Business America*, 16 March 1987, pp. 18-19.

Table II.11 International franchising by United States firms, by location of number of establishments, 1985
(Number of establishments abroad)

Type of franchised business [a]	Total	Developed market economies		Developing countries [b]
		Total	Canada	
Restaurants	6 122	4 767	1 542	1 355
Auto and truck rental services	5 758	3 972	714	1 786
Business aids and services	3 905	3 663	1 279	242
Non-food retailing	3 510	3 285	1 599	225
Automotive products and services	2 203	1 924	1 045	279
Retailing (food other than convenience stores)	2 140	1 813	959	327
Construction, home improvement, maintenance and cleaning services	1 693	1 603	695	90
Hotels, motels and campgrounds	515	387	276	128
Recreation, entertainment and travel	177	160	66	17
Laundry and dry-cleaning services	132	123	112	9
Educational products and services, rental services (equipment), convenience stores, and miscellaneous	4 033	3 681	767	352
Total	**30 188**	**25 378**	**9 054**	**4 810**

Source: United States, Department of Commerce, *Franchising in the Economy, 1985-1987* (Washington, D.C., Government Printing Office, 1987).

a Excluding automobile and truck dealers, gasoline service stations and soft-drink bottlers.
b Including New Zealand with a total of 402 outlets.

Table II.10 Sales and employment by United States majority-owned foreign affiliates as a share of sales and employment by all United States affiliates, 1984

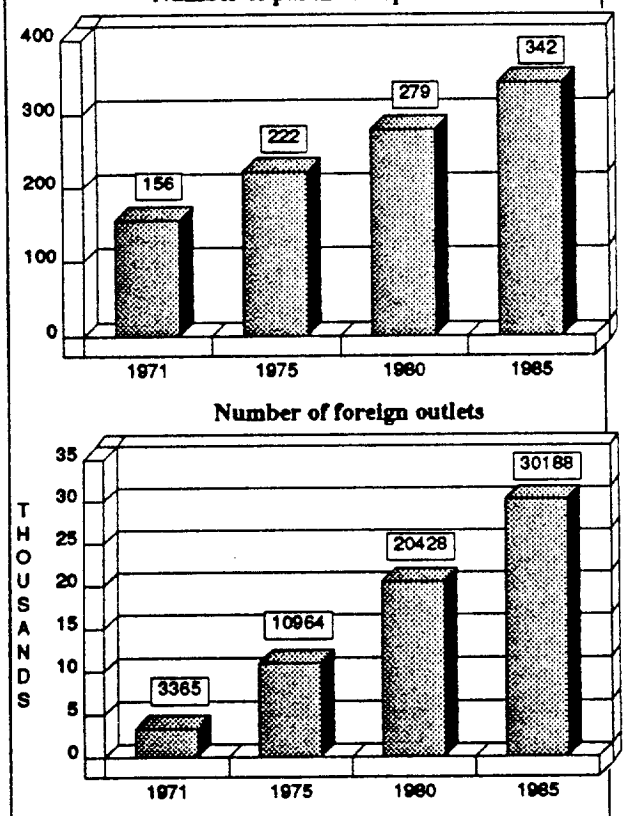
Region	Manufacturing	Wholesale trading	Finance, insurance, real estate	Business and other services
Developed countries				
Sales	77	94	87	89
Employment	75	91	76	88
Developing countries				
Sales	71	89	92	83
Employment	73	83	67	73

Source: United States, Department of Commerce, *US Direct Investment Abroad: Operations of US Parent Companies and Their Foreign Affiliates. Preliminary 1984 Estimates* (Washington, Department of Commerce, 1986).

medium-sized enterprises to enter foreign markets. Many (if not most) of the new entries are, in fact, undertaken by the latter group of companies. For them, equity ventures normally involve a capital cost, which is too expensive or risky.

Other non-equity arrangements are particularly frequent in such industries as hotels and fast-food restaurants at home or abroad. In 1986, no less than 94 per cent of all hotels belonging to the 10 largest United States chains were franchised or licensed, and only 6 per cent were owned (table II.12). The last of those figures was 12 per cent in 1976. In 1986, two thirds of the units operated by the world's 10 largest fast-food chains were franchised, and only one third owned (table II.13). Data on the foreign operations of the two largest fast-food TNCs show that the proportion of units franchised abroad (66 per cent) does not differ much from the share of such units in total operations (72 per cent). Any corporation in either industry can, of course, have more than one type of association with the same foreign unit, and the form of involvement can vary from market to market and firm to firm. For instance, McDonald's, the world's largest fast-food TNC, prefers to rely on joint-venture partners to ease its way into new foreign markets, while in some developed countries it operates wholly-owned subsidiaries (see box IV.1). Similarly, some TNCs in the hotel industry regard themselves primarily as suppliers of hotel and catering technology (including design, construction, equipment and furnishing) and managerial and operational exper-

Figure II.2 The growth of international franchising by United States firms, 1971-1985



Source: United States, Department of Commerce, *Franchising in the Economy 1985-1987* (Washington, D.C., Government Printing Office, 1987)

tise, rather than finance capital (UNCTC, 1982). Others view their hotel properties independently of their role as suppliers of hotel and catering technology. And a third group (for example, airlines), sees control over hotels as beneficial to other parts of their organization. A determining factor is also a host country's attitude and regulatory framework concerning such issues as the availability of local finance capital; the permissability of majority equity investments by foreigners; and the availability of qualified management and professional personnel. Although combinations of those factors may affect the prevailing type of local involvement in a particular location (for example, ownership in Western Europe or management contracts in the Middle East), the overall long-term trend in the hotel industry, particularly among United States TNCs, has been away from TNC-owned foreign hotel properties and towards management-contract and franchising-type arrangements.

Other service industries in which the incidence of non-equity forms is relatively high include car rentals, retailing (as shown by the data on franchising) and health services. (The extent to which management contracts are used in the health industry is documented in box I.3). It also appears that, especially in developing countries, there has been a long-term shift from FDI to such non-equity forms as turnkey and technical assistance contracts in public utilities, public transportation networks, port facilities, railroads, international shipping and air transportation (Oman, 1984). For example, management and technical assistance or service contracts are often used by state-run airlines and shipping companies in developing countries. But in all of these industries, FDI also plays a role. For instance, in shipping, countries offering flags of convenience have attracted considerable FDI; in the airline industry, airlines from developed countries have a stake in a number of airlines from developing countries; and in railroads, Canadian Railways, for instance, owns considerable railway assets in the United States (box II.2).

In sum, it is difficult, and in most cases impossible, to capture in a systematic manner the extent to which non-equity forms of foreign involvement are used by service TNCs. These forms still largely escape the attention of national FDI data collection systems which focus on the forms with capital participation in a foreign economy or enterprise. It must be noted, however, that the growing realization of the fact that the control of an enterprise can be ensured by non-equity arrangements as well as by equity arrangements has led many countries to lower the cut-off point of the equity stake in a foreign enterprise above which such a stake is considered to be FDI. This is particularly the case when the low equity share (for example, 10 per cent) is accompanied by contractual arrangements between two enterprises. In such industries as fast-food, hotels or accounting, non-equity forms are no less important than equity involvement. In these industries, FDI data capture only a part -- in some industries only a small part -- of TNC activities. In other indus-

Table II.12 The importance of non-equity forms in the hotel industry, 1986

Hotel	*Number of hotels* [a]	*Percentage of non-equity forms* [b]
Best Western International Inc.	1 905	100
Holiday Corporation	1 623	89
Quality International, Inc.	908	99
Ramada Hotel Group	507	95
Howard Johnson Franchise Systems, Inc.	445	85
Days Inn of America	439	95
Trusthouse Forte Hotels	420	91
Motel 6	409	-
Super 8 Motels, Inc.	402	92
Econo Lodges of America, Inc.	394	100

Source: UNCTC, based on *Lodging Hospitality* (August 198[illegible]).

a United States only.
b Franchised, licensed, management contract.

Table II.13 Franchising in fast-food restaurants, 1986

Company	*World-wide company-owned units (Number)*	*World-wide franchised units*	*Franchised units as a percentage of total*
Baskin-Robbins	184	2 358	93
Arby's	199	2 232	92
Burger King	838	3 905	82
Big Boy	170	729	81
McDonald's	2 301	7 109	76
Roy Rogers	206	551	73
Domino's	995	2 611	72
Kentucky Fried Chicken	1 912	4 463	70
Hardee's	929	1 893	67
Pizza Hut	2 700	2 946	52
Taco Bell	1 328	1 115	46
Wendy's	3 375	352	9

Source: UNCTC, based on *Restaurants and Institutions* (July 198[illegible]).

tries, all forms can be used by a particular company, depending on its strategy, the purpose of its activity in a given market and the host country's regulations concerning organizational forms of presence by foreign companies. As a result, the traditional use of FDI as a measure of the activities of TNCs is increasingly becoming questionable, in the services sector even more so than in the industrial sector.

E. Summary

Two sets of firms are responsible for the growth of FDI in services: industrial TNCs and service TNCs.

Many industrial TNCs have established financial and especially marketing affiliates abroad to internalize those two corporate functions. By doing so, they have contributed significantly to the growth of FDI in services abroad. In the case of the Federal Republic of Germany and the United States, industrial TNCs account in fact for half of the country's outward FDI stock in services.

Partly following industrial TNCs, service firms have expanded abroad as well. Service TNCs can be found in most service industries, although the propensity to transnationalize varies from industry to industry. For example, firms in financial services and some trade-related services are firmly established in international business, while many personal-service firms are hardly involved in transnational activities at all. In virtually all service industries, it is typically only a handful of firms which accounts for the lion's share of transnational activities. And a number of the largest of those firms appear to be diversifying rapidly into related service industries, with clusters forming, especially in finance-related services, data services, tourism and travel, and around some professional services (for example, advertising).

In terms of the number of large service TNCs, the single most important home country or region is the United States, with Western Europe and Japan not too far behind. United States service TNCs are, however, considerably more transnationalized as measured by the number of their foreign affiliates than Western European firms and, especially, Japanese firms. United States TNCs are strongly represented in most service industries, although Japanese companies have gained considerable ground during the past decade, especially in banking and wholesale trading (where the *sogo shosha* have a longstanding strong presence).

While United States service TNCs lead their competitors in other countries in terms of degree of transnationalization, they lag far behind their industrial counterparts in this respect: regardless of whether measured by the percentage of assets, sales or employment abroad, United States industrial companies are twice as transnational as United States service corporations. One important caveat must be made, however. Non-equity forms (and

these would not be captured by the data measuring foreign content) in all likelihood are more common in service than in manufacturing industries, and this difference may distort the pattern somewhat. Nevertheless, the evidence is quite strong that, at least until the mid-1980s, service TNCs as a group were considerably less transnational than industrial firms. That lower level of transnationalization might mean that service industries are less suitable for FDI, or that there is room for rapid growth in services FDI in the future.

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III. TRANSNATIONAL BANKS AND INTERNATIONAL CAPITAL MARKETS

As has been shown in the preceding chapters, foreign direct investment in banking and other financial services has grown more rapidly than foreign direct investment in other service industries, and transnational banks and non-bank financial companies have emerged as particularly important transnational corporations. The consequences of their activities go far beyond the banking sector. The present chapter focuses therefore on transnational banks and changes in their global networks. It does so against the background of an examination of the substantial long-term changes which have taken place in international financial activities and in the functioning of international financial markets. As a result, the role of banks has changed dramatically, and banks and non-bank financial intermediaries increasingly resemble each other. The structural transformation of financial markets, the debt crisis and adjustments in the activities of transnational banks have affected relations between these banks and developing countries and the extensive changes in financial institutions and markets have given rise to new prudential and macroeconomic concerns; these issues are also reviewed in this chapter.

A. Salient trends in transnational banking and international financial markets

The scale of international financial activity has been increasing strongly since the 1960s. One measure of its growth is that, during the period between 1972 and 1985, the funds raised in international financial markets expanded at an annual rate of some 23 per cent. This far outreached the growth in the value of world trade, which rose annually over the same period by some 13 per cent (see figure III.1). Without a doubt, the pace of internationalization of financial markets acquired a powerful new momentum in the 1980s. This has been closely linked to the emergence of the international securities market as the principal medium for cross-border borrowing and lending; as a result, there has been much cross-border acquisition of financial firms in the leading industrial countries over recent years (see figure III.2). The implications for the world economy and for world financial policies of the current internationalization of capital markets are only gradually coming to be understood; but, as the universality and magnitude of the October 1987 plunge in stock markets underlined, they point to dangers as well as benefits.

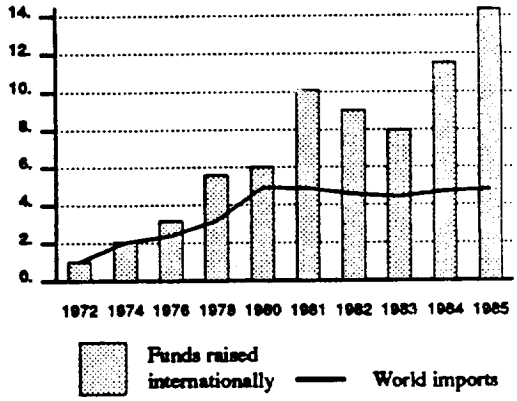
Three important groups of events since the 1960s have progressively changed both the motives and the character of the transnational banks (TNBs). These were the oil shocks, the debt crisis and the spread of securitized markets. Before the 1970s, the operations of TNBs mainly took the form of establishing branches, subsidiaries and other offices abroad for the purpose of supporting the activities of non-financial TNCs. Important functions included the financing of foreign trade and the provision of credit in local currency to affiliates of TNCs. To a limited extent banks also participated in direct intermediation in local financial markets. A foreign presence was essential for these activities; and the number of foreign establishments and/or their asset size was a rough measure of the scale of transnational banking.

In the 1970s, the connection between the presence and the activity of TNBs was considerably loosened. TNBs "recycled" funds from oil-exporting surplus countries to oil-consuming deficit countries, many of which were developing countries. The bulk of the funds, which passed through TNBs in the major financial capitals, were of such magnitude that lending flows between borrowing countries and TNBs in those financial centres dwarfed financial intermediation taking place through offices within the deficit countries. The need for foreign offices was also diminished by advances in telecommunications and information technology. A spur to the establishment of foreign presences, however, was access to the less regulated and taxed offshore banking centres, whose activities were not closely connected to local economies.

With the emergence of the debt crisis in 1982, the flow of funds from TNBs to developing countries was sharply curtailed. New patterns of international flows emerged. While international financial transactions continued to grow at a rapid pace, their link with the foreign presence of TNBs was further loosened. First, the share of credit going to other developed market economies in transnational bank lending grew substantially. Second, the banks themselves became responsible for a drastically reduced share of international financial activity as credit now flowed mainly through non-bank, securitized channels.

The role of TNBs in the financial market of the 1980s can be characterized broadly as follows:

Figure III.1 The growth of world imports and funds raised internationally (1972 = 1.0)



Source: International Monetary Fund and Organisation for Economic Co-operation and Development

(a) TNBs are playing a greatly reduced role in international financial intermediation;
(b) The activity of TNBs themselves is increasingly taking securitized forms;
(c) Because of securitization and the new technologies in telecommunications and computers, changes in the network of foreign bank offices have become much less significant as a measure of "transnationalization" in banking;
(d) The objectives of bank offices in financial centres now more closely resemble those of investment banks and other non-bank financial firms than that of the traditional bank supplying credit;
(e) In contrast, the activities of TNBs in developing countries remain largely confined to the long-standing activities of assisting in foreign-trade finance and participating, to some degree, in local markets.

B. The internationalization of banking and finance

1. Sources of growth

In the years immediately after the Second World War, there was little that could be called a world financial market. Even national markets were highly segmented, each separate market being serviced by different types of financial institutions -- such as banks, brokerage houses or investment concerns -- which adhered closely to their own specializations. Financial regulations, which were particularly detailed for the banks, reinforced the segmentation of markets. Together with exchange controls, these regulations assured Governments of a large degree of control over both domestic and foreign financial activities.

It was in the 1960s, when the Eurocurrency market came into being, that the first movement towards the internationalization of financial markets occurred. This market flourished, it may be noted, not because of any policy decision by Governments, but because TNCs were able to earn more on their liquid assets in an unregulated international market than they could through repatriation of those assets for investment within the regulatory and fiscal framework of their home countries. In more recent years, the TNBs and other non-bank financial institutions have been similarly motivated to enlarge their foreign activities.

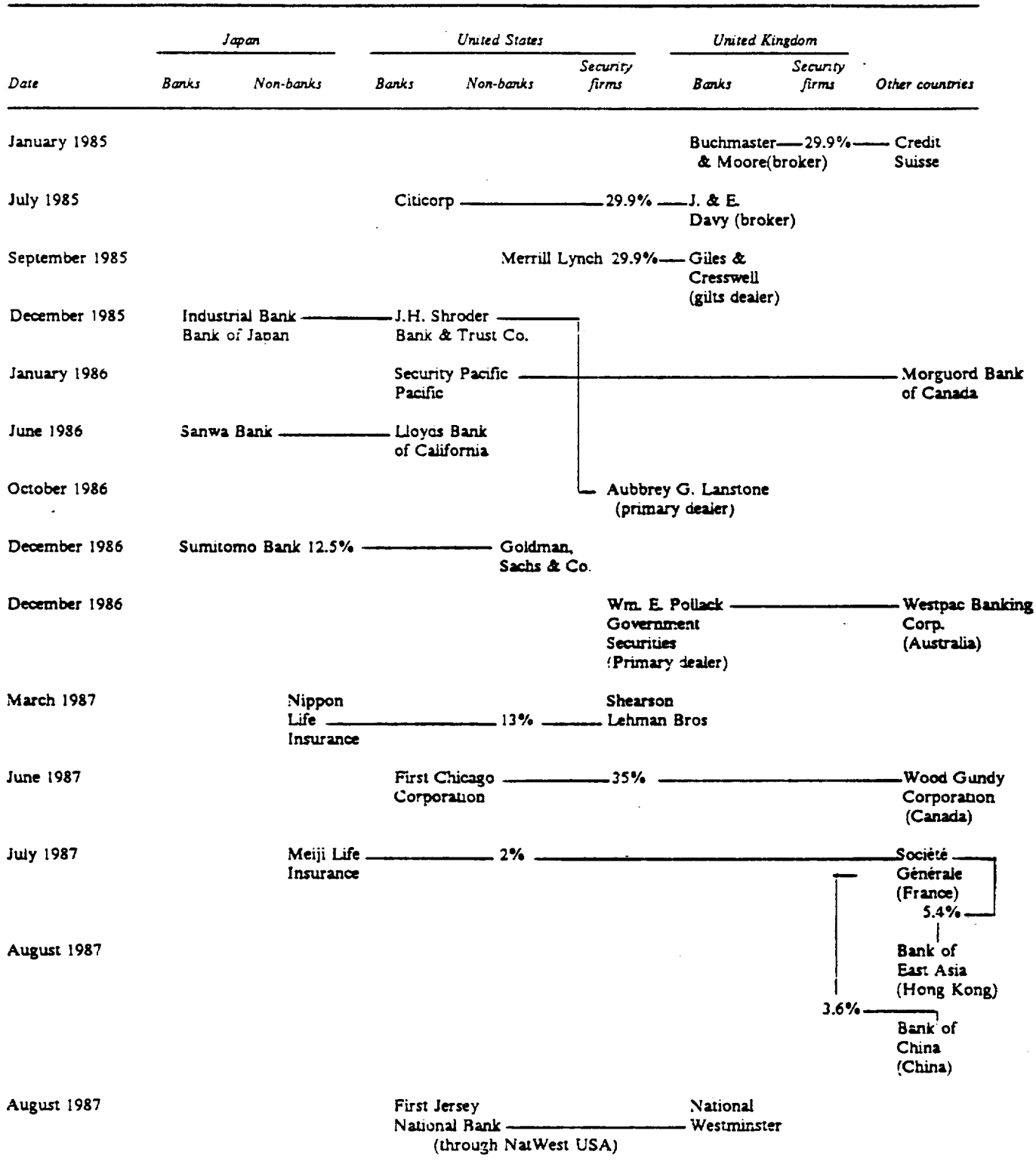
The internationalization of financial markets received fresh impetus in the 1970s from two sources. First, the oil-exporting countries emerged from the price increases of 1973-1974 with huge surplus savings, which they sought to lend abroad; and much was recycled by the TNBs to the deficit developing countries. Secondly, in the mid-1970s, the Federal Republic of Germany and the United States dismantled their exchange controls on capital movements, and they were followed towards the end of the decade by Japan and the United Kingdom.

The events of the 1970s catapulted the TNBs into prominence as the institutions dominating the world financial market; but with the advent of the debt crisis in 1982, their pre-eminence as suppliers of international finance began to wane. This was in part because the flow of private loan capital going through the banks to the developing countries dropped to a trickle. But it was also because the dismantling of exchange controls on capital movements and other financial deregulation led to a large and vigorous growth in the international securities market, mainly among the developed market economies. The growth continues today, and the market now far outreaches bank intermediation as the principal medium for the lending and borrowing of international loan capital. The banks, however, have been active participants in the booming market, not in their former role as intermediary borrowers and lenders, but as agents facil-

Figure III.2. Major cross-border acquisitions in financial markets in the 1980s

Date	Japan		United States			United Kingdom		Other countries
	Banks	*Non-banks*	*Banks*	*Non-banks*	*Security firms*	*Banks*	*Security firms*	
June 1982			Security Pacific			29.9%	Hoare Govett	
November 1983			Citicorp			29.9%	Vickers da Costa (broker)	
January 1984	Fuji Bank		Walter E. Heller (Merchant bank)					
April 1984			Security Pacific		5.0%		Charles T. Pulley (trader)	
June 1984	Mitsubishi Bank		Bank of California					
July 1984					Shearson Lehman	5.0%	L. Messel (broker)	
July 1984	Sumitomo Bank					52.67%		Banca del Grottardo (Switzerland)
September 1984			Citicorp		29.9%		Schrimgeour Kemp Gee (broker)	
September 1984							Savory Milln (brokers) 29.9%	Dow Scandia [1]
September 1984							James Capol 29.9% (broker)	Hongkong & Shanghai Banking Corp (Hong Kong)
November 1984			Chase Manhattan Bank		29.9%		Laurie Milbank (broker)	
November 1984			Chase Manhattan Bank		29.9%		Simon & Coates (broker)	
November 1984						Morgan Grenfell (Merchant bank)	5.0%	Deutsche Bank (Germany, Fed. Rep. of)
November 1984							Phillips & Drew (broker) 29.9%	U B S
December 1984			NCNB Corp		29.9%		Panmure Gordon (broker)	
December 1984	Sanwa Bank			Continental Illinois Leasing (Sanwa Business Credit)				

Figure III.2. continued



Source: United Nations Centre on Transnational Corporations, based on press reports.

1 Joint venture between Dow Chemical and three Scandinavian banks.

itating direct lending and borrowing among others.

One large economic change underlying the shift in relative importance of the international securities market and the TNBs is the redirection in net international capital flows since the 1970s. Instead of the oil-exporting countries, the Federal Republic of Germany and Japan have become the major countries in the world with surplus savings to place and, instead of the oil-importing developing countries, the United States has become the country with the largest shortfall in savings. But lenders and borrowers in those countries, with their direct access to securities markets, have many alternatives to reliance on the international banks for the placement or raising of funds.

Besides this broad change in economic circumstances, three specific changes of a technical or institutional character have been at work altering the scale and character of the international financial market. These are the advances in computer and telecommunciations technology, the trend towards abandonment of many financial regulations and the introduction of a range of new financial instruments on the securities markets.

(a) New technologies

The new telecommunications and computer technologies have been transforming financial markets, making the international enlargement and integration of markets possible on a scale that was previously unthinkable. These technologies have been breaking down the barriers between geographically dispersed markets that are thrown up by time-lags in the flows of information about current transactions. The "information revolution" has also been proved to be an important spur to the securitization of markets. It reduces the need for a direct relationship between borrower and lender and the systematic treatment of large amounts of data on the creditworthiness of individual firms makes it possible for more borrowers to enter the market. In addition, the new technologies have provided the means for processing a much larger volume of financial transactions at low cost.

Those developments have given rise to virtually instantaneous world-wide trading in some markets. Financial exchanges have linked themselves together electronically, and they have been cross-listing securities or contracts so that these instruments can be traded around the clock in one or another exchange. However, while financial markets throughout the world are now informed almost instantaneously about changes in the prices of financial assets and other events, this is by no means an unalloyed advantage. Recent world-wide plunges in stock market prices attest to this fact. When circumstances give rise to a fearful and panicky mood among participants in one major market, the rush to sell can spread with breathtaking rapidity to markets throughout the world. Such "globalization of the herd instinct" -- to use a phrase of the Chancellor of the Exchequer of the United Kingdom -- is a consequence of the new technologies which could be dangerously destabilizing.

(b) The trend towards deregulation

The internationalization of financial markets -- along with the breaking down of segmented markets within national economies -- owes a good deal to the progressive deregulation of financial activities. Though deregulation is consistent with the market-oriented approach of present Governments in most developed market economies, it would be a mistake to imagine that it has been effected solely, or even mainly, as an act of principle. In fact, it has often been more a matter of abandoning regulations which, because of changing circumstances, have become a source of distortion in financial markets or have been merely rendered ineffective. At the beginning of the 1980s in the United States, for example, when the thrust of anti-inflationary monetary policy shifted to control of the monetary aggregates, short-term interest rates rose strongly and became very volatile. But, as interest rates paid by banks on deposit or savings accounts were regulated, funds were quickly drained away into unregulated markets, threatening the liquidity of those institutions. The authorities consequently were obliged to eliminate interest-rate ceilings. Japan -- the one other major developed market economy regulating interest rates -- has recently taken similar action (see box III.1 for a summary of some recent steps to liberalize financial markets in several countries). Exchange controls intended to regulate capital movements have likewise been abandoned in most developed market economies, partly because their effectiveness in the face of the growth in volume of permitted international financial transactions has been diminishing.

Another circumstance generating pressures for deregulation has been the intensification of competition among financial enterprises. The different types of financial institutions have been moving outside their long established and specialized markets, diversifying the range of their financial activities. The banks, however, have often found themselves at a particular disadvantage in this competitive struggle, because their activities are subject to more regulatory restrictions; the consequent anomalies have been persuading the authorities to modify those restrictions. A case in point is the exclusion of banks in the United States and Japan (though not, for example, in the Federal Republic of Germany or the United Kingdom) from the business of underwriting securities. Brokerage houses, by contrast, have been free to engage in some forms of business traditionally considered to be the province of the banks. The United States is now in the process of reducing the restrictions on banks' participation in the securities market.

The migration of financial business abroad has long been a way for both banks and non-bank institutions to escape domestic financial and fiscal restrictions. It was a powerful stimulus to the emergence of the Eurocurrency market and it similarly lay behind the growth of the offshore banking centres. In more recent years, TNBs have been active in establishing or acquiring subsidiaries in other leading financial centres so that they can engage in activities, such as dealing in securities, from which they are excluded at home. However, as the volume of business transacted outside national borders has grown over the years, the regulatory authorities have increasingly sought to modify regulations in order to allow the business to be conducted at home. An important step in this direction was taken by the United States in 1981, for example, when it authorized banks to accept deposits from and make loans to foreign entities much as though they were operating as offshore branches through the medium of the international banking facilities. In December 1986, Japan also authorized the opening of international banking facilities.

Forces have also been at work to lower barriers to the operations of foreign entities in the leading financial centres. As liberalization has granted access to foreign entities in some centres, their establishment has generated demands for reciprocal access in the home country of the foreign entities. The Governments of Western Europe and the United States, for example, have brought pressure to bear on Japan to improve access to its more highly regulated market. Some countries have also opened up access to previously sheltered markets in the hope of attracting more international business and of enhancing their competitiveness through their increased scale of operations. The "Big Bang" in London, for example, opened up membership of its Stock Exchange to a larger number of foreign firms, and the "Little Bang" in Paris made membership available to foreign firms and to both domestic and foreign banks.

(c) Financial innovations

Innovations in financial instruments have been another set of changes heightening the attractiveness of the international financial market. While aided by deregulation, these innovations have, in the main, been sparked by market competition or have been devised in response to broader changes in economic and financial conditions. There have been two main kinds of new financial instruments -- those offering new ways of lending and borrowing and those allowing a greater spreading of risks.

The introduction of short-term notes has done much to broaden the international securities market in recent years. Note issuance facilities (NIFs) were of particular importance in launching this innovation. By use of these facilities, borrowers have been able to raise loans on a revolving basis directly on the securities market, an alternative which has proved cheaper than syndicated bank loans. The facilities are provided by the banks, which undertake the placement of the note issues and accept a contingent obligation to lend to the borrower the balance of any issue not taken up by the market either initially or on refinancing. In the last two or three years, NIFs have been overtaken in popularity by Eurocommercial paper, with which the banks restrict their obligation to making their "best efforts" to place the issue. There are several other new instruments, mostly variants on the same theme of replacing bank credit with securitized loans (see box III.2 for a description of the main instruments).

The new instruments allowing a greater

Box III.1: Measures to liberalize financial markets in the 1980s

Country	(1) Deposit-rate ceilings	(2) New instruments
United States	Legislation in 1980 phased out interest ceilings on no deposits. At present there and are ceilings for deposits having more than 30 days of maturity, ceilings for individuals have been abolished since 1983.	Full range of financial instruments
Japan	Ceilings on large deposits being phased out; ceilings on individual deposits remain.	In 1982, companies authorized to own overseas certificates on deposit and commercial paper. In 1984, authorization of a domestic market in foreign CDs and commercial papers. In January 1985, a yen-denominated bankers acceptance market inaugurated. In June 1985, Euroyen floating rate notes (FRNs), zero coupon bonds, and dual-currency issues permitted for non-resident borrowers. In November 1985, dual-currency "Samurai" bonds permitted, eligible bond-rating agencies expanded, and ceilings on issue-amounts raised. In June 1987, plans announced to permit a domestic commercial-paper market and to expand Japanese futures markets. Many restrictions on yen-related transactions lifted.
United Kingdom	No interest-rate ceilings since 1971	In the early 1980s, restrictions lifted on the issue of FRNs by residents, foreign Goverments and companies. In 1985, issue of sterling commercial paper authorized, and measures taken to ease issue of medium-term sterling bonds.
Germany, Federal Republic of	Interest-rate ceilings phased out in 1967	In May 1985, FRNs, zero coupons, swap-related bonds and dual-currency bonds permitted. In December 1985, Bundesbank permitted negotiatable DM certificates of deposits of banks domiciled in the Federal Republic, subject to reserve requirements if less than two years in maturity.
France	Ceilings on demand, time and savings deposits still in place.	Subject to minimum denomination and maturity restriction, banks permitted to issue CDs (March 1985), companies and private individuals allowed to purchase government bills (December 1985), and companies allowed to issue commercial paper, provided 95% adequately backed up by a financial institution. In April 1985, the French franc Eurobond market reopened to public and private French and foreign borrowers. Interest swaps and convertible bonds authorized. FRNs still not permitted.

Country	3) Activites Permitted	(4) Controls and taxes
United States	In late 1981, international banking facilities were introduced (institutions that act much as "Euro" branches in accepting funds free of reserve requirements and interest limitations for non-U.S. residents and foreign corporations). By 1987, 39 state laws permitted bank acquisitions by out-of-state banks. 1982 legislation authorized Federal Deposit Insurance Corp. to permit interstate acquisition by banks of failing banking institutions. Legislation pending to broaden securities powers of commercial banks.	In June 1984, a 30 per cent withholding tax on interest paid to foreigners on government bonds repealed.
Japan	In December 1984, foreign institutions allowed to lead-manage Eurobond issues. In October 1985, authorization was given for foreign banks' securities subsidiaries to open securities branches in Japan as from end-1985, with the condition that banks' equity holdings in their subsidiaries should not exceed 50%. In December 1986, Japanese banks were permitted to open international banking facilities along the US model. In May 1987, joint ventures permitted in which foreign financial and non-financial firms can establish securities firms and operate in Japan (such ventures still not permitted for Japanese firms). In June 1987, plans to admit foreign firms to full membership in the Tokyo Stock Exchange and plans for a limited auctioning procedure that would result in foreign securities firms' placing a greater share of new-issue government bonds.	In April 1985, withholding taxes on Japanese issues abolished.
United Kingdom	No formal legislation separating banking from underwriting but tolerance of a fixed commission system on the stock exchange. "Big Bang" in October 1985 ended the era of fixed minimum commissions on the stock exchange and extended the membership of the exchange to a larger number of foreign firms.	
Germany, Federal Republic of	In May 1985, foreign-owned banks incorporated in the FRG permitted to lead manage foreign DM issues, subject to reciprocity agreements. In December 1985, banks permitted to lead-manage DM issues of zero coupons, FRNs and other paper commonly used in international finance.	In December 1984, coupon tax on interest earned by non-residents from domestic bonds abolished, retroactive to the preceding April.
France	In February 1986, a futures market ("MATIF") opened. In March 1987, "Little Bang" was announced, opening the Stock Exchange gradually to outsiders and to foreign and domestic banks.	Proceeding with a broad relaxation of exchange controls, including permission for use of currency options and currency futures. Credit controls eliminated by late 1986.

Box III.2 Recent innovations in financial instruments

Floating-rate notes

Floating-rate notes (FRNs) are medium- to long-term securities, whose interest rate is periodically adjusted to reflect changes in a reference rate like the London inter-bank offered rate (LIBOR) or the New York banks' prime rate. These grew rapidly in volume in the 1980s as they shifted the risk of interest rate increases away from investors. High-quality borrowers issued FRNs in competition with bank deposits, which also offered variable rates; they thus avoided paying for bank intermediation. Many TNBs also began raising funds in the FRN market in lieu of taking deposits and, where the authorities permitted, equity-linked FRNs were issued by TNBs to satisfy capital requirements. Many variants cropped up by the mid-1980s, typically deferring coupon or interest payments for tax purposes or adding rights of conversion of principal in different currency denominations at pre-arranged exchange rates ("dual currency bonds"). The ratio of FRNs to straight bonds has declined from an annual peak of two thirds in 1984 as interest rates have stabilized and trended downward. In late 1986 and 1987, the FRN markets suffered episodes of lack of investor demand orginating from concern over the quality of some bank-issued FRNs.

Note-issuance facilities

Under a note-issuance facility (NIF), a bank arranges to purchase an issuer's unsold notes at a pre-arranged price or to provide a stand-by loan. As a result, the borrower more easily issues the paper and, at roll-over dates, the borrower and lenders have assurance of the borrower's liquidity. The back-up in effect makes the borrower's short-term note not only longer term, but generally cheaper than a straight longer-term credit would be because of shorter maturity of the instrument, the wide range of potential buyers and the guarantee that there will not be a glut of paper near the roll-over date. The banks avoid direct balance-sheet exposure, facing instead the risk that the commitment will be called upon. The risk of that happening is significantly reduced by market-wide knowledge of the support that the borrowers have from the facility itself. The volume of NIFs, excluding renegotiations and merger-related standbys, peaked in 1984 and fell off considerably in 1985 and 1986. This is because many of the (usually high-quality) issuers have found it cheaper to borrow in new "uncommitted" Eurocommercial paper markets that have arisen since 1984.

Eurocommercial paper

Eurocommercial paper and associated facilities have developed since 1984 and take the form of non-underwritten (distributed on a "best efforts basis") notes similar to commercial paper in the United States. Eurocommercial paper facilities (drawn and undrawn) increased by $16 billion in 1985, and at an annual rate of $52 billion in 1986. [1] *The total outstanding had been less than $1 billion at the end of 1984. The growth of non-underwritten facilities is due to a broadening investors' base, more sophisticated techniques for issuance and improvements in arrangements for settlement and credit rating. Underwriting fees are saved, and the issuer generally has geater flexibility in pricing, maturity and distribution. Major issuers in the United States commercial-paper market have begun issuing at lowest cost in both markets. General Motors Acceptance Corporation is, for instance, now the major issuer in both the United States and the Eurocommercial paper market.*

Stand-by letters of credit

For a fee, banks guarantee the financial obligations of the borrower to a third party. These include credit enhancement facilities to municipal borrowers and corporate commercial-paper issuers. Another use is to provide liquidity guarantees for variable-rate municipal issues.

Loan sales

In most cases, the sale of a loan requires a "transferability" agreement. In the United States markets, where explicit backups are prohibited by the Glass-Steagall Act, banks have begun to "liquify" loans by means of selling them to third-party lenders. This can be done most straightforwardly by arranging a buyer simultaneously to granting the loan, in which case the activity is very close to that of a bank being a "broker" in a commercial-paper tansaction. Where the transaction involves a prior loan contract, the sale of the loan asset may, in fact, be effective underwriting, but very difficult to detect.

In the United States, six major banks were reported selling off in 1985 about 22 per cent of all their commercial loans.[2] *Banks in the United States have sold loans for mergers and acquisitions on a large scale and mainly to foreign banks, which otherwise might lack the expertise or client base to participate in the origination of the loans.*

Interest-rate swaps

An interest-rate swap is a contract in which two borrowers, usually through a bank's intermediary, agree to meet each other's interest obligations, while each continues to make its own payment of principal. The classic example is where a well-known bank, which has a comparative advantage in issuing fixed-rate debt, agrees with a non-financial firm seeking fixed-rate debt to exchange fixed and variable-interest obligations. In that way, the non-financial firm gains access to fixed-interest credit, to which it otherwise has no access, and the bank matches variable-interest debt to its variable-interest assets. Since 1983, a large number of variants have been offered, including swaps of floating-rate commitments, swaps in interest denominated in different currencies, swaps between non-financial counter parties and swaps between banks. While estimates of volume are crude and there is a tendency to double-count, an estimate by the International Swap Dealers Association of outstanding swaps at the end of 1986 was $313 billion.

Currency swaps

An important variant on interest swaps is the "currency swap" -- transactions in which the principal denominations (and often interest payments) are agreed upon in different currencies. Currency swaps involve fewer players, the market is thinner and hedging is more complex. Costs of errors and volatility tend to be higher. As a result, this market has been growing much less quickly than the pure interest-swap market, although it has had substantial effects in tightening linkages between securities markets based in different currencies.

[1] See OECD, *Financial Market Trends* , No.37 (May 1987).
[2] *Euromoney* , August 1986, p. 165.

Table III.1. Borrowing on the international financial market [a]
(Billions of dollars)

	1984	1985	1986
Bonds	111.5	167.7	226.4
Syndicated loans	57.0	42.0	47.8
Note-issuance facilities	17.4	36.3	21.4
Other back-up facilities	11.4	10.5	5.6
Subtotal	**197.3**	**256.5**	**301.2**
Eurocommercial-paper programmes	..	11.2	56.7
Other non-underwritten facilities	..	10.6	8.5
Equities	..	2.7	11.7
Total	**197.3**	**281.0**	**378.1**

Source: OECD, *Financial Market Trends*, No. 37 (May 1987), p. 5.

a Excluding merger-related stand-bys and renegotiations.

spreading of risks include interest rate and currency swaps, options and futures. In the present-day world of unstable exchange rates and variable interest rates, those instruments should, in principle, contribute towards the strengthening of the international financial market. By creating additional markets in specific risks, they have made it possible for both lenders and borrowers to hedge against the risks attaching to specific loans. The greater spreading of risks among market participants has, it should be noted, been made easier by the growth in securitized loans, since it allows the "unbundling" of the risks associated with the loans.

2. *The participation of the transnational banks*

The new technologies, deregulation and the new financial instruments have greatly enlarged the international financial market in recent years, and the expansion has occurred through the rapid growth in the securities market. Syndicated bank loans, which had amounted to 60 to 70 per cent of international financial transactions in the early 1980s, accounted for only 16 per cent in 1985 and 1986 (table III.1). A general explanation, as mentioned above, is the shift in the pattern of net international private lending which took place from the 1970s to the 1980s. Unlike the 1970s, both gross and net lending in the 1980s has been overwhelmingly dominated by financial transactions among the developed market economies. But there have also been more specific reasons why borrowing and lending through the banks has suffered such a sharp relative decline.

The TNBs have been at a disadvantage in competing as lenders with the international securities market. With large doubtful debts in their portfolios, the banks have been less able to attract deposits cheaply, and the insistence by bank supervisors that the banks conform to more stringent conditions has also raised their costs. The relative cost of syndicated bank loans has accordingly increased. But the banks have also had a positive interest in promoting securitized lending. After the onset of the debt crisis, the main concern of bank supervisors was to urge the banks to strengthen their financial positions by raising their capital-to-assets ratios. The banks have thus had an incentive to limit the growth of their balance-sheet assets and to seek ways of generating income through off-balance- sheet activities. Participation in the securities market through such new financial instruments as note-issuance facilities or stand-by letters of credit have admirably suited this purpose: such business has generated income and not added to assets, giving rise to only a contingent obligation. The new instruments, moreover, have helped the banks to improve their balance sheets themselves. The banks have been making use of such new borrowing facilities to lengthen the maturity of their liabilities, and they have sought to improve their liquidity by designing assets which could be more readily traded on the market. Further, such hedging instruments as interest and currency swaps have been extensively exploited by the banks to spread their risks. With such changes under way, the long familiar distinction between the deposit-acceptance and loan-creation activities of the commercial banks, on the one hand, and the fee-generating and underwriting activities of the securities firms and investment banks, on the other, has become decidedly blurred.

3. *The international financial market and developing countries*

Recent developments in the international financial market have hardly impinged at all on the great majority of developing countries. There are a few creditworthy countries which have floated short-term notes on the Eurocurrency market. Some securitization of the outstanding debt of heavily indebted countries has also been taking place

through debt-equity swaps and sales of outstanding loans by smaller banks on the secondary market. The scale of these operations, however, has been very small. It appears, nevertheless, very likely that the recent changes in the international market will increasingly modify the external financial relations of developing countries in the years to come; much more securitization of outstanding debt, principally in the form of bonds, and a shift of new borrowing to the securities market both seem probable.

A principal reason for the past concentration of developing-country borrowing on bank loans instead of securities is that the creditworthiness of borrowers in those countries has not been sufficiently transparent to attract funds from investors who are not specialists in credit evaluation of those borrowers. Banks have been specialists in such credit evaluations and are therefore able to assess the risks attached to extending loans. If the banks could, in some way, make their credit evaluations available to the securities market, more securitized borrowing by developing countries might perhaps be made possible.

An incipient form of securitization in lending to developing countries is the recent action of banks in selling loans which they have made to commercial enterprises in developed market economies. Investors are willing to take up those loans, because they know that the creditworthiness of the borrowers has already been assessed by the banks. In those circumstances, they do not need to have the special knowledge necessary for credit evaluation. However, the interest of the banks in expanding the market for this type of loan may be limited. They have a proprietary right vested in the credit evaluations, and they may be reluctant to reveal them. On the other hand, if they fail to do so, there may be few buyers for their loan sales, since the banks -- knowing that they intend to sell the loans -- could be lax in their credit evaluations.

Though small comfort, this difficulty, at least, hardly applies to the sales of outstanding developing-country debt; there is probably little information about those past loans which the banks would still have a proprietary interest in withholding. More sales of those loans on the secondary market could, in fact, contribute to generating the flow of standardized information about borrowers that is a pre-condition of any future primary market. However, the TNBs are presently deterred from the securitization of more of the outstanding debt of developing countries by their reluctance to accept accounting losses.

C. The global network of transnational banks

Despite the growing size of the international financial market, the network of subsidiaries, branches and offices which the TNBs have established throughout the world has not increased much in the 1980s. Of course, a substantial part of the network is located in the developing countries, and they have hardly participated at all in the burgeoning international financial market. But it is also true that the changing nature of the business undertaken by the banks -- with its emphasis on the securities market -- limits the need for additional financial presences. Within the global network, however, there has been a significant change in composition as Japanese banks have risen to pre-eminence.

1. Limited expansion in the 1980s

In 1985, the 100 largest TNBs had a foreign network of 4,660 offices (table III.2). This represented an increase of only 147 offices from 1980. Not surprisingly, much of the increase was concentrated in other developed market economies, though significantly more offices were also established in the centrally planned economies, and particularly in China. The number of offices maintained in the rest of the developing world outside of China actually declined, as did the number of offices in the offshore banking centres under the influence of the relaxation of banking regulations in the leading developed economies.

There is evidence that the smaller banks not included in the top 100 banks increased their network of foreign offices more rapidly. All Japanese banks, for instance, added some 354 offices to their foreign network as against the 110 reported for the top banks only. Again, for the sample of the 100 largest banks, 32 additional foreign offices were opened in the United States between 1980 and 1985, whereas the total increase for all foreign banks was more than 200. Even so, by the 1980s, the years of rapid expansion in the network of foreign offices appear to have passed.

The distribution of the foreign offices of the 100 largest banks is about evenly split between the developing countries and the developed market

Table III.2. Foreign network of the 100 largest banks, 1985

Foreign offices of banks	Total entities	Developed market economies	Developing countries				Centrally planned economies [a]	Eight offshore centres [b]
			Total	South East Asia	Latin America	Africa		
All 100 banks								
Number of offices	4 660	2 296	2 246	..	..	..	118	606
(Change from 1980)	(147)	(114)	(-41)				(74)	(-29)
France (9 banks)								
Number of offices	688	304	356	84	114	72	28	75
(Change from 1980)	(224)	(87)	(119)				(18)	(35)
Germany, Federal Rep.of (11 banks)								
Number of offices	289	176	105	30	45	17	8	31
(Change from 1980)	(-65)	(-35)	(-34)				(4)	(-3)
Japan (26 banks)								
Number of offices	676	338	300	6	87	215	38	122
(Change from 1980)	(110)	(52)	(23)				(35)	(12)
United Kingdom (5 banks)								
Number of offices	457	204	247	69	52	30	6	62
(Change from 1980)	(-29)	(-4)	(-27)				(2)	(-7)
United States (15 banks)								
Number of offices	884	364	511	64	228	145	9	115
(Change from 1980)	(-280)	(-123)	(-160)				(3)	(-44)

Sources: UNCTC, based on *The Banker*, August 1986; *The Banker*, research unit, and *Who Owns What in Banking*, various years.

Note: The foreign network includes banks, subsidiaries, affiliates and representative offices. The number of entities in the foreign network of the bank listed is not complete. In most cases, branches and or representative offices are counted on the basis of countries and or cities where they are located. Subsidiaries and or affiliates of foreign subsidiaries are not counted.

a Bulgaria, China, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania and Union of Soviet Socialist Republics.
b Bahamas, Bahrain, Cayman Islands, Hong Kong, Lebanon, Netherlands Antilles, Panama and Singapore.

economies. Offices in the centrally planned economies account for a minor fraction of the total. As might have been expected, United States banks constitute the leading group of TNBs in Latin America, though they are far from being predominant. In South-East Asia, Japanese banks are the leading group, though a similar qualification applies. In Africa, it is TNBs from France and the United Kingdom which are foremost in representation (see table III.2).

2. *The rise of Japanese banks*

While the foreign network of TNBs as a group has not been expanding much in the 1980s, this obscures a shift in the nationality of these banks. Both French and Japanese TNBs have added significantly to the number of their foreign offices, while banks from the Federal Republic of Germany, the United Kingdom and the United States have reduced theirs.

Too much significance should not be attached to these changes in the number of foreign offices. In view of the changes which have been taking place over recent years in the nature of the business being conducted by TNBs, there is no close link to be expected between the network of foreign offices and the scale of a transnational bank's international financial operations. It probably remains broadly true that the size and distribution of foreign-office networks is related primarily to the possibilities for the longer-standing kinds of transnational-banking business -- the financing of foreign trade and of TNCs from the banks' home country.

Be that as it may, when other measures besides the number of overseas offices are used, there is certainly no doubt about the rise to pre-eminence of the Japanese banks in the 1980s. By the end of 1986, 26 of the 100 largest banks in the world's market economies were Japanese, and together they accounted for nearly 40 per cent of the total assets of the 100 banks (see table III.3). Between 1978

Table III.3. Assets of 100 largest banks aggregated by country of parent office, 1986 and 1978 [a]

Country Territory	*Years*	*Number of banks*	*Assets (Billions of dollars)*	*Share of 100 large banks' assets (percentage)*
Japan	1986	26	3 122.7	39.7
	1978	23	861.4	26.3
United States	1986	14	944.6	12.0
	1978	14	514.0	15.7
France	1986	9	792.3	10.1
	1978	7	361.4	11.0
Germany, Federal Republic of	1986	12	787.4	10.0
	1978	12	459.7	14.0
United Kingdom	1986	5	435.7	5.5
	1978	5	174.9	5.3
Italy	1986	8	434.1	5.5
	1978	8	197.1	6.0
Canada	1986	5	259.3	3.3
	1978	5	133.4	4.1
Switzerland	1986	3	242.5	3.1
	1978	3	106.1	3.2
Others [b]	1986	18	846.2	10.8
	1978	23	471.8	14.4

Source: UNCTC, based on data from *The Banker*, "The Top 500", July 1987 and "The Top 300", July 1979.

a Assets minus contra accounts. Contra accounts are letters of credit, acceptances, and securities held on behalf of clients which are not assets that the bank can use.

b For 1986, Australia (2), Austria (1), Belgium (5), Brazil (1), China (1), Hong Kong (1), India (1), Iran (1), Iraq (1) and Netherlands (4). For 1978, Australia (2), Austria (1), Belgim (5), Brazil (1), Hong Kong (1), Iran (1), Israel (1), the Netherlands (4), Spain (3), Sweden (3) and Yugoslavia (1).

and 1986, they had increased their share of those assets by nearly 14 per cent. Some part of the gain in asset share is due to the appreciation of the yen, but the main reason was the relatively rapid expansion in the scale of their operations. The growth has been most pronounced at the top end of the scale. At the end of 1986, seven of the top 10 banks were Japanese compared with only one in 1978. The loss in market share fell most heavily on United States banks, whose share of total bank assets of the 100 largest banks declined from 16 per cent in 1978 to 12 per cent in 1986. Banks parented in the Federal Republic of Germany and France also sustained losses in market shares.

With the advance of Japan to the forefront among industrial and trading nations, it is hardly surprising that its national and international banking business has grown apace. There is a familiar, quite often repeated, historical pattern in the movement of countries from the attainment of industrial and technological eminence to their emergence as dominant exporters with large trade surpluses, and their transformation into major capital-exporting countries and new international financial centres. There are, however, a number of circumstances which may have helped to accelerate the pace at which Japanese banks have moved to the fore.

In the years before the 1980s, Japan had become well known for its high propensity to save, most especially in the household sector, and for its correspondingly high rate of growth in investment. In the 1980s, however, a conjunction of economic circumstances has greatly dampened the pace of domestic investment and has translated the excess domestic saving into a large surplus in the balance of payments on current account. The net outflow of Japanese savings, much of which finances the related deficit in the United States' balance of payments, has undoubtedly contributed to the enlargement of the international activities of the Japanese banks. Though much Japanese savings have been lent abroad in the international securities markets, and not through the intermediation of the banks, Japanese banks, like others, have been active participants in the securitization process.

Moreover, far from confining themselves to the intermediation of Japanese savings, those banks have moved strongly into international intermediation between third parties. It is symptomatic of these international activities that, in 1985-1986, Japanese banks took a strong net-debtor position in the inter-bank market. Japanese banks have, as noted earlier, increased their physical presence in other developed market economies, competing directly and effectively in the home markets of others and earning an increasing share of underwriting and fee-generating service income. In the United States, for example, the number of entities of Japanese banks reached 137 by 1985 and they accounted for 14 per cent of total bank assets in the country. In the United Kingdom, the 55 entities of Japanese banks accounted for 22 per cent of total bank assets. Japanese banks have also been actively purchasing foreign banks and securities firms (Japan, Ministry of Finance, 1986).

Recent years have also seen extensive deregu-

lation of financial markets and banking systems throughout the developed market economies, a period auspicious for the aggressive marketing and expansion of financial services. Japanese banks, like others, have taken advantage of asymmetries in regulations which have allowed them to engage in kinds of financial business abroad which they were not permitted to undertake at home. Japan itself, partly in response to prodding by other Governments, has also been relaxing its regulations regarding foreign lending and the use of the yen in international markets. Further, the authorities in Japan have permitted the banks to maintain relatively low capital-to-assets ratios and this has allowed the banks to accept lower returns on their assets than their competitors, while being able to earn comparable returns on capital. As indicated in table III.4, the Japanese banks in the 100 largest banks have the lowest capital-to-assets ratio of all banks in the group. The table also reveals the tendency for banks with low capital-to-assets ratios to have relatively low returns on assets.

Table III.4. The 100 largest banks: return on assets and capital-assets ratios, 1986
(Percentage)

Country	*Return on assets*	*Capital to assets*
Switzerland	0.72	5.91
United States	0.78	5.33
Canada	0.80	5.25
United Kingdom	1.08	4.76
Italy	0.76	4.03
France	0.52	2.84
Germany, Federal Republic of	0.39	2.83
Japan	0.42	2.24

Source: UNCTC, based on data from "The Top 500", *The Banker*, (July 198[illegible]).

3. Transnational banks and developing countries

In recent years, relations between TNBs and the developing countries have been dominated by the debt crisis. Because of their central role in intermediating funds from the surplus oil countries during the 1970s, the banks have been principal actors in the recurrent discussions and negotiations concerning the debt problem that has overshadowed international economic relations in the 1980s. The present state of measures and proposals to overcome the debt problem is not discussed here. However, the banks as a conduit for the flow of medium-term capital is not the only facet of their relations with the developing countries. That has overlaid an older, and still continuing, relation in which TNBs constitute a segment -- usually small and specialized -- of national banking systems in the developing countries.

Much of the network of TNBs in developing countries is of long-standing origins. Some date back to earlier decades in the present century, when European banks set up branch-banking systems in colonial territories or in other developing countries. Since the end of the Second World War, however, most developing countries, like developed market economies, have tightly regulated the presence and activities of TNBs in order to exercise control over their monetary systems, including the allocation of credit, and to protect the indigenous banks. In many countries TNBs are not permitted to engage in branch banking or domestic deposit taking. The international network of the TNBs has, nevertheless, been augmented in post-war years as United States banks in the 1950s and 1960s and, more recently, Japanese and French banks have added to their overseas presence (see table III.2).

At the local operating level, the TNBs generally function quite differently from their host-country counterparts, reflecting both their comparative advantage and the effects of regulations. They tend to be much less dependent on local deposits and to rely quite heavily on inter-bank financing. Although some banks do participate in retail banking, their operations tend to be "wholesale" rather than "retail". They are most in evidence in the financing of foreign trade, though they also engage in other activities, such as the provision of short-term credit to large corporations. In some countries, most financial services relating to trade are, in fact, performed by foreign banks.

In terms of profitability, TNBs regularly outperform their local counterparts. TNBs have the advantage of enjoying economies of scale which lower their operating costs. Their size also enables them to diversify their risks, and they generally function world-wide with substantially lower capital-to-assets ratios than their local counterparts. Further, since TNBs have access to outside funding by their parent offices, they are able to avoid the costs of operating a network of local branches as a means of securing deposits. Finally, through their parent offices, they can readily benefit from managerial and technological improvements in banking

methods.

The attitude of developing countries towards the participation of TNBs in their economies has generally struck a balance between recognized advantages and disadvantages. On the one hand, the presence of TNBs provides international links, which ease the financing of foreign trade and the flow of foreign exchange and it exposes national banks to competition and to the inflow of new financial technology. On the other hand, developing countries perceive that the TNBs, with their external funding sources, could weaken their national control over the volume of domestic credit, reduce the market share of national banks and perhaps divert the economy from its desired development path. Each country's approach to the regulation of foreign banks reflects a trade-off between those advantages and disadvantages, a trade-off which is, in practice, assessed very differently by individual countries.

Regulations affecting the TNBs take three forms: those limiting entry into the national market, those defining the permissible extent of foreign ownership and those restricting banking operations. Entry restrictions are widely used in developing countries to limit the presence of foreign banks. A number of developing countries have nationalized their banking systems, and these are virtually closed to outsiders. At the other extreme are several countries which permit foreign investment in banks servicing the domestic market. [1] In most countries, entry is highly restricted, but not excluded. Ownership restrictions typically include an "indigenization" requirement, under which TNBs have to relinquish the majority shareholding in their local subsidiaries to nationals. [2] Operating restrictions often go well beyond the limitations imposed on banks in general by national banking regulations; they may include restrictions on bank-branch networks, on deposit-taking operations, special-reserve requirements, minimum requirements on capital, lending ceilings, credit-allocation requirements, restrictions on the maturity composition of loans and limitations on rediscount borrowing and on profit repatriation. In some countries, there are also requirements regarding the degree of local-staff participation in the administration of the bank.

4. The special case of the offshore financial centres

A special situation is the widespread establishment by TNBs of entities in offshore financial centres. [3] These have been created in a number of developing countries and territories (for example, the Bahamas, Bahrain, the Cayman Islands, Hong Kong, Lebanon, the Netherlands Antilles, Panama and Singapore) to attract international banking business. A large number of TNBs from all the major capital market countries have opened branches and offices in those centres since the 1960s. The main attractions are favourable taxation treatment, secrecy, lack of exchange controls and the near absence of regulations on international banking business.

Those eight offshore banking centres captured 606 or about 13 per cent of the foreign entities belonging to the 100 largest banks in 1985 (see table III.2). The countries' banks most represented in those centres were the United States (19 per cent of offices of offshore centres in the sample) and Japan (20.1 per cent). A significant share of the external lending of TNBs to developing countries has been booked through those offshore banking centres. It need hardly be emphasized that the activities of TNBs in those centres are oriented towards international financial transactions, which have little relation to the domestic economies where the centres are located and, in most centres, international banking is strictly segregated from

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1 Ten countries in Africa (Algeria, Angola, Benin, Ethiopia, Guinea, the Libyan Arab Jamahiriya, Madagascar, Mozambique, Somalia and the United Republic of Tanzania), as well as Democratic Yemen, Iran, Iraq and the Syrian Arab Republic, have nationalized banking and so their banking systems are virtually closed to outsiders. Peru is also nationalizing the banks. In Kuwait, only fully locally-owned banks are allowed to operate, with the exception of the Bank of Bahrain and Kuwait. At the opposite extreme, the banking systems of the Bahamas, Hong Kong, Kenya, the Netherlands Antilles, Panama, Paraguay, Sri Lanka, Swaziland, Togo and Zambia are open to foreign investors. Egypt has had a new open-door policy to banking and joint ventures since 1974, after having previously expelled foreign banking interests.

2 For example, in 1976, Nigeria and Saudi Arabia stipulated an indigenization target of 60 per cent. Full foreign ownership is allowed in such countries as the Côte d'Ivoire and Zimbabwe, but no foreign ownership is permitted in Mexico. Egypt and the Sudan allow 49 per cent foreign ownership.

3 Between 1975 and 1985, the share of developing countries' deposit bank foreign assets to total bank foreign assets was relatively stable, at about 0.20, or roughly the share of developing countries' imports to total world imports. However, when the contribution of offshore centres to developing countries' bank foreign assets is removed, the share falls to 0.04 to 0.05. Thus, apart from the offshore centres, developing country banks (local as well as TNBs operating locally) are responsible for a relatively small amount of international financial activity. (*Source* : IMF, *International Financial Statistics*, various issues.)

domestic-banking activities.

As with other foreign offices of TNBs, there has been stagnation in the growth of those offices during the 1980s. This has been partly due to the general slow-down in bank intermediation during the period. But it is also a consequence of liberalization in the domestic markets of the financial-centre countries, which make offshore branching unnecessary. The opening of international banking facilities in the United States in December 1981, for instance, diverted much of the Caribbean offshore business to the United States.

5. Transnational banks parented in developing countries

Some of the banks from developing countries are already transnational and, indeed, are relatively large. The main source of the growth of these banks has been their role in an expanding export business and in arranging FDI in their home country. Forty-one banks from developing countries and territories were among the 300 largest banks in 1986, an increase from 22 banks in 1975, but slightly down from 44 in 1980. Those 41 banks in 1986 comprised 6 from the Republic of Korea, 4 each from Iran and Taiwan Province, 3 each from Brazil, Israel, Mexico and Yugoslavia, 2 each from Algeria and Saudi Arabia, and one each from Argentina, Bahrain, China, Egypt, Hong Kong, India, Iraq, Jordan, Kuwait, the Syrian Arab Republic and Thailand.

D. Non-bank financial entities

Lending and borrowing through securities markets now dominates international financial transactions. The TNBs are important participants in those markets; they back note issues on the part of others through such devices as note-issuance facilities and stand-by letters of credit; and outside Japan and the United States, banks can also be important underwriters of securities. None the less, a large proportion of international financial business now bypasses the banks altogether. It is the non-bank financial entities which have been the leading institutions servicing the growing securities markets. The operations of those entities, however, are less well known, data on their activities are less systematically reported and they have usually been subject to less stringent regulatory surveillance. Indeed, in view of the much enlarged scale of operations of the non-bank financial entities, the enhanced international linkages among markets and institutions, and the blurring of the distinction between banking and non-banking business, many concerns have been expressed in recent years about the adequacy of current regulatory structures.

While nearly every kind of non-bank financial firm, as well as some non-financial entities, has become involved in international finance, the most important have been securities and financial services firms. Those are firms engaged in stockbrokerage (including research and margin lending), investment portfolio management, and investment banking (underwriting and assistance in mergers and acquisitions). A great deal of the activity is similar to traditional banking in that it earns income from the difference between rates charged and rates paid, as, for example, in margin lending, provision of money-market accounts or arbitrage. But much also involves risk-taking, as in trading positions or underwriting new issues.

Table III.5 lists the top 25 of those firms ranked by capital at the end of 1986. Important features that stand out from the table are the large size of those firms and the predominance of Japanese and United States firms. If amalgamated with the list of the largest TNBs, the top three securities firms -- all United States firms -- figure among the top 10 concerns when ranked by capital size.

A key activity of securities firms is their ability to reduce the cost to clients of raising funds on the market. This requires size, a large sales force, a diversified client base and relative freedom from regulations, all of which reduce the risk of not being able to distribute an issue. The dominance of United States firms can be explained by the large volume of securities business that normally takes place in the United States, together with the high degree of regulatory tolerance of the securities industry in that country. The prominence of the Japanese firms stems from the large pool of funds available for placement abroad and an aggressive strategy of acquiring securities firms abroad as a means of escaping domestic regulations which separate banking from securities underwriting and placement.

Most of the international financing that these firms service is in the form of Eurobonds. Those are bonds denominated in currencies other than the

Table III.5. The 25 largest securities and financial services firms, ranked by capital, fiscal year 1986
(Millions of dollars)

Rank 1986	Rank 1985		Home country	Capital [a]	Capital change from 1985 (percentage)	Assets	Net income
1	1	American Express	United States	14 126	31	99 476	1 250
2	2	Salomon Inc.	United States	8 273	15	78 164	516
3	3	Merrill Lynch	United States	7 662	26	53 013	454
4	5	Orient Leasing	Japan	6 399	23	13 825	62
5	7	Nomura Securities	Japan	6 000	34	18 325	1 383
6	6	Compagnie Bancaire	France	4 841	7	21 590	104
7	9	Nippon Shinpan	Japan	4 798	29	24 064	61
8	10	Orient Finance	Japan	4 651	26	21 919	74
9	4	Beneficial	United States	4 487 [b]	-10	7 274	(172)
10	12	Daiwa Securities	Japan	3 551	40	19 474	700
11	14	Yamaichi Securities	Japan	2 880	36	13 317	518
12	8	Union Discount Co. of London	United Kingdom	2 753	-14	3 590	16
13	11	Commercial Credit	United States	2 208	-22	4 864	46
14	13	Nikko Securities	Japan	2 133	-10	14 358	574
15	16	Japan Securities Finance	Japan	2 010	33	17 245	18
16	15	Trilon Financial	Canada	1 999	18	15 733	93
17	-	Drexel Burnham Lambert	United States	1 846		38 583	..
18	17	Goldman Sachs	United States	1,526	27	38 794	..
19	18	E. F. Hutton	United States	1 505	32	25 921	(90)
20	19	First Boston	United States	1 364	31	48 618	181
21	25	Morgan Stanley	United States	1 337	99	29 190	201
22	22	Integrated Resources	United States	1 096	41	5 137	18
23	21	Japan Consumer Credit Soc.	Japan	1 078	9	4 057	7
24	23	Paine Webber	United States	1 037	43	14 726	72
25	-	Bear Sterns	United States	949	85	26 939	132

Source: *The Wall Street Journal*, 18 September 198[illegible].

a Defined as owner's equity, reserves, minority interest, preferred stock and long-term debt.
b Includes short-term debt.

currency of the country in which the bonds are issued. The bulk is denominated in dollars and is transacted in London. Fifty firms account for most of the Eurobond finance world-wide, the top eight accounting for over half. [4] Non-bank securities firms are prominent, though not dominant, in the arrangement of note issuance facilities and share the market with TNBs in placing Eurocommercial paper.

The transnational role of those firms has been partly an outcome of the differences among countries in fiscal and financial regulations relating to domestic and external transactions. Like the banks, whose main motive for transnationalization in the 1960s and 1970s was to escape regulations, the securities markets have been subject to similar influences. In the 1960s, the growth of the Eurobond market was spurred by United States taxes on the interest on foreign issues in the United States bond market. Eurodollar bonds also proved to have an important attraction because they were "bearer" bonds and not subject to withholding taxes. [5] In 1968, United States firms were forbidden to finance overseas investment in the domestic market, which gave further impetus to the growth of the Eurodollar bond market, particularly in London. Asymmetries in regulations have also brought about the entry of Japanese and United States TNBs into the international securities market. While United States banks cannot participate in most of the securities business at home, foreign banks have been permitted to operate in the market through subsidiaries. But United States banks have gone abroad to establish or acquire

4 The total dollar value of issues underwritten between January 1985 and 5 December 1986 by the top 50 Eurobond firms was $293.2 billion. By comparison, the annual average of the value of international bond issues world-wide during 1985-1986 was $161.2 billion. (*Sources*: OECD, *Financial Market Statistics*, various issues; "Financial innovations made to measure", *Euromoney*, Supplement (January), p. 6.

5 In 1985, both the United States and the Federal Republic of Germany lifted withholding taxes on bonds issued in their markets, and the United States Treasury began offering bonds "targeted" to foreign investors.

securities firms in the London market and elsewhere. Most recently, United States banks and other banks have moved into the securities business in Tokyo, enjoying privileges that Japanese banks do not have. Japanese banks, forbidden by restrictions to operate as underwriters and securities dealers at home, have acquired interests in United States securities firms.

A result of those trends is a high degree of foreign-based participation in the United Kingdom, the United States and Japanese securities markets. In London, 14 of the 23 primary dealers are foreign-owned, and there are 180 foreign-owned banks and securities firms. About half of that country's stock market shares, half of its gilts, and 90 per cent of Eurobonds are handled by foreign firms. About one third of the market makers in the United Kingdom Government securities business are also owned by foreign firms. In New York, most foreign security activity is in United States Treasury securities, of which about one third are taken at issue by Japanese firms. In Tokyo, there are relatively few foreign firms. One United States firm, however, is the sixth largest firm in government bond trading and the third in bond futures. Some 30 to 35 per cent of Treasury bonds are handled by foreign firms (*Economist*, 1987, pp. 69-72).

E. Prudential and macro-economic concerns

The extensive changes in financial institutions and markets which have taken place over recent years have given rise to new prudential and macro-economic concerns. The central authorities have long engaged in the regulation and supervision of financial institutions, particularly the banks, in order to ensure that those institutions conduct their business prudently. Since the banks are principal providers of the means of payments, a failure of the banking system could have devastating consequences for the economy. Financial institutions and markets, moreover, are key intermediaries through which the central authorities bring their macro-economic policies to bear on real economic activity. The changes of recent years, which have been brought about in large part by the dismantling of regulations, have both altered the nature of the prudential concerns and the effectiveness of macro-economic policies. One consequence has been a continuing effort to revise regulatory and supervisory frameworks and, in particular, to conform the regulations of the leading developed market economies more closely. Another has been an awareness of the vulnerability of real economic activity to the behaviour of international financial markets and of the added limitations imposed on the pursuit of independent macro-economic policies.

One of the new prudential concerns has arisen from the movement of the banks into off-balance sheet activities. It will be recalled that, partly to comply with bank supervisors' requirements that the banks raise their capital-to-assets ratios, banks have been active in generating new sources of income through off-balance sheet activities. Their participation in the securities markets through such new financial instruments as note issuance facilities, stand-by letters of credit, swaps and options, has been extensive. Back-up commitments alone have grown to levels several times the capital pledged to them. However, the trouble with those off-balance sheet activities is that they carry risks which may sometimes be obscure and which are not embraced in conventional balance-sheet analysis. This has raised uncertainties about the capital adequacy of the banks.

Another change giving rise to prudential concerns is that the banking system and the securities markets have ceased to be largely insulated from each other. The distinction between banks and non-bank financial institutions has, indeed, become blurred. One consequence is that, as the various institutions are linked through their mutual borrowing and lending, the banking system is more vulnerable to imprudent conduct by institutions in securities markets. Traditionally, firms operating in securities markets have been subject to relatively light regulation and supervision; the intent has usually been no more than to protect the individual investor and to prevent fraud (including "insider" trading). But the trend in the very recent past has been to give greater weight to prudential connsiderations. A significant step was taken in this direction by the United Kingdom -- after the near collapse of a bullion trading firm -- with the passage of the Financial Services Act of 1985. The Act established a Securities and Investments Board with powers to supervise the self-regulating securities markets. Comparable action has been under discussion in other leading financial centres.

A further source of prudential concern has been

the differences that exist among developed market economies in their regulations and tax régimes. Those differences have provided financial institutions with a way of escaping from the more stringent, and costly, regulations in their home countries. So long as cross-border transactions remained relatively small, the anomalies in regulatory disciplines were not of great consequence. But, with the huge expansion in international financial transactions, particularly since the dismantling of exchange controls in Japan and European countries, the sensitivity of markets world-wide to the failure of financial institutions anywhere has increased, and the need for more uniform regulatory and supervisory standards has become more urgent.

International co-operation on regulatory matters was begun among the central banks of the countries of the Group of 10 in the mid-1970s under the auspices of the Bank for International Settlements. Their first agreements, known as the two Basle Concordats, laid down rules concerning the jurisdictions to which the subsidiaries and branches of TNBs should be subject. In subsequent years, central banks have sought to broaden their co-operation. Most recently, they were reported as close to agreement on common capital-to-asset ratios, which they would apply in their national banking systems. [6] The authorities of the United States and the United Kingdom have also recently issued a report analysing the off-balance sheet risks assumed by the commercial banks and proposing methods for including those risks in assessments of capital adequacy. [7]

Besides such prudential concerns, the recent trend towards the internationalization of financial markets has undoubtedly complicated the task of policy-makers in managing macro-economic activity. In principle, the freedom of financial flows to respond to price signals world-wide should imply enhanced economic efficiency in the international allocation of capital. It can also act as a market-disciplining device working against inappropriate or inconsistent macro-economic policies. But these results presume that private capital invariably moves to eliminate any discrepancies that arise between the currently quoted value and the fundamentally correct value of financial assets; this is demonstrably not so. The greater freedom of private capital movements in the 1980s has not moderated the fluctuations in asset prices, including the price of assets denominated in foreign currencies, but has given rise to wider gyrations around their fundamental values. The most striking instance was the strong and steady appreciation of the dollar up to 1985, which took place even as the United States current-account deficit rose to record levels.

It is an old observation that participants in financial markets tend to act on the basis of views about what are the conventionally accepted values. This can cause a deviation of currently quoted from fundamental values which, when widely perceived, may bring about a large and sudden revision of prices. Such market psychology was, for instance, a major element in the collapse of stock market prices in October. The difficulty for macro-economic policy-makers is that those volatile swings, if large enough and broad enough, can have sufficiently disruptive effects on asset prices, particularly interest rates and exchange rates, as to jeopardize real economic activity. Their task, it may be said, is therefore clear enough: it is to prevent asset prices from becoming distorted in the first place or, if they do, to moderate the market revaluation. But it is not as simple as that. First, the policy-makers themselves may be part of the problem, pursuing macro-economic policies which are themselves unsustainable in the longer run. Secondly, in the present-day world of more internationally integrated financial markets, the macro-economic policies of the leading market economies have to be co-ordinated with each other if the intent of each is to be realized.

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IV. EXPLAINING THE GROWTH OF FOREIGN DIRECT INVESTMENT AND TRANSNATIONAL CORPORATIONS IN SERVICES

A. Introduction

The preceding chapters have documented the role of FDI in services and the growth of TNCs in service activities over the past two decades. This chapter attempts to explain these phenomena by using one of the most widely accepted paradigms of international production viz., the eclectic paradigm (Dunning, 1981, 1988), and by applying it to the specific circumstances of services. The paradigm asserts that the extent, pattern and growth of value-adding activities undertaken by TNCs outside their national boundaries is dependent on the value of and interaction between three main variables:

- *Ownership-specific advantages of TNCs:* the extent and nature of the technological, managerial and marketing advantages of TNCs *vis-à-vis* indigenous firms in the country in which they are producing or contemplating value-added activities; these include those which arise from the ownership of geographically dispersed activities;
- *Location-specific advantages of countries:* the benefits of combining ownership-specific advantages with immobile factor endowments in a foreign or the home country to undertake value-adding activities; those benefits reflect the location-specific or comparative advantages of these countries; and
- *Market internalization advantages:* the advantages of controlling and co-ordinating ownership- and location-specific advantages within a TNC hierarchy, rather than selling the right to use those advantages to indigenous firms located in the country of production.

It should be noted that those advantages are not necessarily independent of each other. For example, the fact that one service TNC may choose a superior location to another may give it a competitive edge. Furthermore, it is accepted that the configuration of these ownership, location and internalization advantages and the response to them by firms varies according to industry, country and region (of origin and destination) and firm-specific characteristics; the last of these factors incorporates the perceived competitive positions of firms and their strategies for growth. It also varies over time, as changes in technology and the entrepreneurial and economic environment may affect the competitive position of corporations and the location of their value-adding activities. Finally, as will be seen below, not all advantages associated with the three main variables are equally relevant for explaining the growth of FDI and TNCs in services, as opposed to FDI and TNCs in the industrial sector.

B. Ownership-specific advantages

The concept of ownership-specific advantages refers to the ability of enterprises to satisfy the demands of their present or potential customers.[1] Three criteria are particularly important in the services sector:

- The characteristics and range of services supplied: these embrace all the components of a service which make it desirable for the customer to purchase it, and include such attributes as design, comfort, usefulness, performance, reliability, durability, efficiency, degree of professionalism and attitude towards customers;
- Price (less discounts), but including expected after-sales costs, for example, repairs and maintenance;
- Services associated with the purchase and use of products, for example, delivery times, frequency and reliability of services (as in transport services), up-to-dateness (as in news agencies), information and advice on product or service quality, the number and location of sales outlets, after-sales repair and maintenance facilities, availability of replacements and spares, and so on.

To meet these criteria more successfully than their competitors, TNCs must either have exclusive or privileged access to specific technological, managerial, financial or marketing assets (so that they can produce and sell specified goods and services at the lowest production costs) or possess better organizational capabilities by successfully integrating separate value-adding activities, which draw on these various assets. The following para-

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1 The concept "ownership" is preferred to "firm" as it emphasizes the generic characteristic of corporate competitive advantages. This may vary, of course, according to particular attributes of firms (for example, size, age, management strategy). The concept "firm-specific characteristics" (rather than advantages) is used to denote these. For a detailed elaboration of the concept of corporate competitive advantage, see M. E. Porter, 1980 and 1986 and J. H. Dunning, 1981.

Table IV.1 Ownership-specific advantages
(Advantages particularly relevant to explaining TNC activities in service industries in bold)

1. Property right and or intangible asset advantages.

Product innovations, production management, innovatory capacity;
Organizational and marketing systems,
non-codifiable knowledge; "bank" of human capital experience; marketing, finance, know-how etc.;
ability to seek out, acquire, utilize and manage information;
capacity to control quality of output and/or supply customized products;
trade marks or goodwill of brand names.

2. Advantages of common management.

(a) Those which branch plants of established enterprises may enjoy over *de novo* firms.
Those due mainly to size and established position of enterprise, for example, economies of scope and specialization;
monopoly power, better resource capacity and usage.
Exclusive or favoured access to inputs, for example, labour, natural resources, finance, data-processing and transmitting equipment.
Ability to obtain inputs on favoured terms (due, for example, to size or monopsonistic influence).
Exclusive or favoured access to product markets.
Access to resources of parent company at marginal cost.
Economies of joint supply (not only in production, but in purchasing, marketing, finance etc., arrangements).

(b) Those which specifically arise because of transnationality.
Transnationality enhances the above advantages by offering wider opportunities.
More favoured access to and/or better knowledge about international markets, for example, for information, finance, labour etc.
Ability to take advantage of geographic differences in factor endowments, markets.
Ability to diversify or reduce risks, for example, in different currency areas, and or political scenarios.

Source: J. H. Dunning, "The eclectic paradigm of international production: a restatement and some possible extensions", *Journal of International Business Studies* (1988), forthcoming.

graphs seek to identify those principal competitive advantages possessed by services TNCs which have led to an increase in their foreign activities. They are summarized in table IV.1, with those advantages especially relevant to services marked with an asterisk.

1. Quality

Unlike many goods, almost all services are complex and involve a strong human content. Indeed, in the strictest sense of the word, all services are either embodied in goods or people. Because of this, their quality is more likely to be variable than that of goods. In a sense, all services are provided on a "one-off" basis, that is, they are never replicated exactly. Obvious examples include personal, business and professional services; entertainment and retail services; customer-specific services (for example, a legal consultation); and collectively idiosyncratic services (for example, a theatre performance or a train journey). The ability to ensure the high and consistent quality of a service is likely to appeal particularly to business customers, whose own reputation may be affected by the quality of intermediate services. Moreover, as income levels improve and competition among firms increases, quality tends to become a more important variable influencing the demand for both consumer and producer services. Quality is probably the single most important variable determining the competitiveness of service TNCs, more important, in many instances, than price.

In some industries, the ability to create and sustain a successful brand image (and the goodwill attached to it) and the capability of firms to monitor quality and reduce buyer-transaction costs by offering services from multiple locations are central to the quality image and hence the competitive advantages of TNCs (Caves 1982; and Casson 1982). For example, TNCs such as Hilton and Holiday Inn (hotels), American Express and Visa (credit cards), McDonald's (box IV.1) and Kentucky Fried Chicken (fast-food chains), Avis

Box IV.1 Fast-food in foreign markets

Fast-food corporations offer an example of how ownership-specific advantages and internalization advantages interact in foreign markets. McDonald's, the industry's leader, is such an example.

In 1985, McDonald's opened on average one restaurant a day in the United States. In addition, McDonald's has increasingly looked to foreign markets for investment (and, consequently, profits). Of the total establishments opened in 1986, 23 per cent were located outside the United States, compared to 17 per cent in 1980. Of the firm's 9,410 units in 1986, 2,138 were located in more than 40 countries and accounted for 27 per cent of its $11 billion in revenues, but only 21 per cent of its operating income and a smaller share of its profits. Most restaurants are franchised, that is, franchisees (carefully selected for their entrepreneurial acumen) have to invest their own capital and, therefore, acquire a direct interest in the success of the enterprise. (In the United States, it costs at least $250,000 to open a new unit.) McDonald's does, however, also enter into joint ventures or establish its own subsidiaries if need arises.

What McDonald's sells abroad is more than just fast-food -- it sells, above all, a firm-specific package of management, marketing and technology which is characterized by strict standards of quality, service, cleanliness and value.

At a general level, the parent corporation tries its best to infuse each store with a common company culture and an overarching company loyalty. It is not uncommon that restaurant owners from one country meet with those from another. But most important are stringent requirements to observe a detailed set of procedures for operations. Each franchisee obtains an operating manual which deals with everything -- from the temperature of the shortening used to prepare french fried potatoes, to the way in which the bag containing the hamburger has to be given to the customer, to the number of times the bathrooms have to be cleaned daily. Each job is broken down into its smallest steps; the cooking and bagging of fries, for instance, consists of 19 separate steps. To ensure that these procedures are understood properly, each foreign operator has to attend one of McDonald's four Hamburger Universities in the Federal Republic of Germany, Japan, the United Kingdom and the United States (complete with exchange programmes), and consultants regularly visit franchisees to offer advice on such issues as promotional campaigns and employee training.

There is, however, room for some creativity within this management approach. In some countries, a few modifications from the menu are permitted. In Brazil, for example, guaraná softdrinks are sold. In fact, McDonald's most important new product developments (for example, the Big Mac and Egg McMuffin) were both developed by franchisees.

McDonald's insists on the strict observation of procedures to assure consistency and, above all, product and service quality. High standards are not only imposed on its own outlets, but also on suppliers. In fact, in many countries one of the greatest difficulties the company faces is to ensure a supply system which meets its standards, be it for meat, potatoes, buns, coffee or straws. In one Western European country, for example, McDonald's had to build its own plant after repeated efforts to obtain buns corresponding to its specifications from local bakeries were unsuccessful. Sometimes, in other words, ownership-specific advantages can only be realized if certain transactions are internalized.

and Hertz (car rentals), Saatchi & Saatchi and J. Walter Thompson (advertising agencies) are each recognized by their particular trademarks and/or by the kind of customers they seek to serve. Since many of those services involve the provision of "experience" rather than "inspection" products, the availability of pre-purchase advice or the experience of related services may guide consumer choice. Similarly, the location and perceived quality of after-sales service and repair and maintenance facilities may affect the selection of durable goods (for example, electrical appliances, automobiles) bought by both business and private customers.

2. *Economies of scope*

The availability and price of several services rests uniquely on the economies of scope of the seller. An obvious example are the services provided by retail stores. The larger the range and volume of products stocked, the higher the bargaining power of retailers to obtain lower prices from suppliers, and the lower the transaction costs of their customers (in the sense that consumers can buy a variety of products in one location as opposed to several). The greater bargaining power of chain stores also enables them to exert more control over the quality of the goods and services they purchase and sell. The world-wide referral systems of many airlines and hotel chains can also be a major advantage to international customers. Economies of scope are also common in shipping and among business consultants; they are inherent in insurance and many finance-related activities and, perhaps, are greatest of all in brokerage-type services, such as those provided by travel agents and investment analysts. They are particularly important in that they help link marketing knowledge with production flexibility and promote a geocentric attitude towards international production.

3. *Economies of scale and specialization*

In principle, there is no difference between the economies of plant scale and specialization enjoyed by firms in manufacturing and those in some service industries. The lower unit costs of providing air transport by a large 747 jet compared with a small 727 model, or accommodation by a 500-bed hotel compared with a 30-bed hotel, or medical services by a large compared to a small hospital, are directly comparable with the economies of large-scale production of motor vehicles, pharmaceuticals or micro-chips. Similarly, large transnational business-consultancy firms, merchant and investment banks, and hotel chains can profit from differential factor costs, the international specialization of value-adding activities, and the economies of common management arising from their ability to move people, money and information between different parts of the same organization. Often, too, service companies can gain by raising finance on favourable terms and buying goods and services at quantity discounts in exactly the same way as can manufacturing firms. And nowhere are the advantages of spreading risks, which size and scope confer, better seen than in the insurance, reinsurance and investment-banking industries. Size, indeed, is almost a pre-condition for successful transnational operations in all three industries.

4. *Technology and information*

In the manufacturing sector, the knowledge component of production techniques and products is usually measured by such indices as the proportion of sales accounted for by innovatory (for example, research-and-development) activities, the proportion of professional, scientific and engineering personnel in the total labour force or the number of patents obtained. The ability to invent new products and to produce existing products more cheaply, or of a better and more reliable quality, is a key competitive advantage in many manufacturing industries. Services are not different in this regard, although (as chapter V will show) the technology involved is usually more of a "soft" than a "hard" variety and essentially comprises the acquisition, interpretation and management of information of all kinds. In other words, instead of involving primarily processes which can be patented and products which can be submitted to reverse engineering, many technologies typical of service industries are primarily skill- and experience-intensive and require considerable organization and management capabilities. The innovations in banking described in chapter III are an example of this, as are the talents required to manage transnational networks of trading, airline or accounting firms or to maintain transnational reservation systems for hotels.

Knowledge as a service has another characteristic: it need not be perishable, and it may be repeatedly used to the benefit of the purchaser at low or zero cost. It is an intangible asset which helps create and sustain the production and sale of a stream of products which embody that knowledge. The production of virtually all services, most notably information and human capital intensive services (for example, finance and banking, data services, business and professional services), embodies a common pool of codifiable and tacit knowledge which is specific to a firm -- or, more particularly, to the collective wisdom, intellect, and experience and judgement capabilities of the personnel of that firm. Large service firms in information-intensive industries trade on their name (and sometimes on the specific services they offer) in the same way as large manufacturing companies. Chase Manhattan Bank, Coopers and Lybrand, A. G. Nielsen, Prudential Insurance Co., McKinsey, Salomon Brothers, Nomura or Extel are all as well known by their clients, and valued as much for the knowledge-intensity of their services, as Monsanto, Philips, Texas Instruments, Boeing or Ciba Geigy in the provision of technology-intensive goods.

In the case of some service industries, it is the capacity to utilize the new data technologies (that is, technologies that function on the basis of digital signals) for the acquisition, production, assembly, storage, monitoring, interpretation and exchange of information (and to do so at the lowest possible cost), which is the key intangible asset or core competitive advantage. As one would expect, that is especially so in those industries whose main service is the acquisition, storage, assembly and transmission of information. But to distinguish services according to their degree of information intensity is becoming increasingly difficult as the data-technology content of many service activities increases. Such activities as banking, commodity trading, insurance, wholesale trade and consultancy (especially in their international dimension) are essentially information-service industries, in the sense that the largest part of their value-adding activities consists of the acquisition, interpretation and dissemination of information.

In manufacturing industries, the provision of modern process and product technology is becoming increasingly expensive, while its rate of dissemination and/or obsolescence is fast accelerating. No less important is the fact that technology requires the possession of, or access to, complementary assets (for example, modern production facilities, sales and distributing networks) so that a product embodying the technology can be commercialized successfully. Two results of those developments are first, that technology-intensive firms are increasingly having to widen their markets to absorb the large fixed costs and reap the economies of scale associated with the production and marketing of technology for technology-intensive goods; and second, that there is increasing pressure on even the largest TNCs to enter into collaborative arrangements with other firms (including their competitors) to reduce the risks of expensive research and development commitments, capture the economies of technological synergy and broaden the application of technology to different processes, products and markets (Contractor and Lorange, 1987).

Service TNCs are experiencing the same pressures. Added to these are the requirements of an appropriate infrastructure for the application of data technologies, requirements which are particularly high for information-intensive firms. American Express, for example, is spending about $500 million a year on its transnational computer-communication system; Air France is reported to be investing as much in its communication system as in aircraft during the second half of the 1980s and the beginning of the 1990s; and the Bank of America spent approximately $1.2 billion in the computer and communication area in 1985 (Sauvant, 1986). At the same time, there are economies of scale and scope in the establishment and maintenance of this infrastructure and the production of information; there are substantial advantages in the specialization of personnel and facilities and in providing, analysing, monitoring, and transmitting particular kinds of information; and there are economies of integration in the different production stages of some kinds of information. In all these respects, it might be expected that large TNCs would have production and or transaction-cost advantages over their smaller rivals. This is clearly perceived to be so by TNCs themselves; one exception is where firms supply very specific services (for example, certain computer software), or cater to niche markets. Indeed, a growing number of service firms are seeking to widen their markets by entering into

collaborative arrangements with each other. Such arrangements are relatively more prolific in industries which are technology- and/or information-intensive, for example, telecommunication and construction management.

In so far as the inputs into a firm's information base require global sourcing, or the service containing the information can be sold to foreign as well as domestic users, the internationally oriented firm has a further competitive advantage. Since one of the features of the last two decades has been the rapid and sustained development of the information economy and the lowering of cross-border transaction costs, it is not surprising that the growth of TNCs in knowledge-intensive industries has been so pronounced. Although data technologies have benefited firms of all sizes, they have particularly favoured large and diversified TNCs because of the need for expensive complementary assets and the opportunities they offer for economies of scale and geographical scope, as well as vertical integration.

5. Favoured access to inputs or markets

Secure and privileged access to inputs, distribution outlets and markets affords many firms a competitive advantage over their less advantaged rivals. Sometimes (especially where markets are seasonal, uncertain or hazardous), those advantages can only be fully exploited by firms which possess them; in other cases, adequate futures markets, comprehensive knowledge about sourcing and marketing outlets, or satisfactory contractual relationships with suppliers or customers may achieve the same result. In both cases, however, those advantages can only be sustained by TNCs when some kind of market failure exists. Examples include international brokerage- or arbitrage-linked service firms whose main purpose is to act on behalf of buyers and sellers to find an appropriate seller or buyer for their products and services. Security, insurance and commodity broking, real estate agencies and travel agents also fall into that category. Such competitive advantages which they possess rest on their abilities to minimize transaction costs for their clients and advise them of how best to meet their requirements.

In other cases, the competitive advantage of service TNCs is directly related to their superior knowledge of the sourcing of essential inputs and a capacity to reduce the associated search and negotiating costs by clustering in the same location. Moreover, some intermediate services need to draw upon each other, and frequently they are jointly demanded by customers (for example, shipping and insurance, banking and finance) which is an added reason for agglomerating and, in recent years, for mergers and diversifications. The concentration of globally oriented business and financial activities in a few major cities of the world (for example, London, New York, Tokyo, Paris, Hong Kong) and within those cities in specific locations (for example, City of London, Wall Street) is explained by the need to gain and sustain this particular form of ownership-specific advantage. The complementarity of many services also helps to explain diversification trends in various industries. Thus, as noted in chapter II, airlines have diversified into hotel chains and tour operations, advertising agencies into market research, accounting firms into management consultancy, and banking firms into securitization and other financial services [2]. These trends may be expected to be strengthened with the growth of transnational computer-communication systems. Once such an infrastructure is in place, it can be used not only for the particular service for which it was established (for example, banking), but also for many other kinds of services which can be supplied by means of the same telecommunication lines -- creating, in this manner, economies of scope.

As regards access to markets, there are numerous examples of service TNCs having advantages over their competitors. The early venturing abroad of transnational insurance, banking, advertising, accounting and executive-search companies was primarily to supply migrating, or travelling individuals or foreign affiliates of TNCs with services they had previously supplied to their parent companies. With the globalization of markets and production, those firms have found it increasingly beneficial to be transnational in their efforts to win or retain the business of their international clients. In this respect, the use of information technology has advanced the competitive position of firms best able to offer a comprehensive package of services

2 At the same time, firm-specific reasons may dictate some divestments of service activities; see, for instance, the sale of Intercontinental Hotels by Pan Am.

once the necessary computer-telecommunication infrastructure has been established (Sauvant, 1986). United States and Western European hotel chains and construction companies, experienced at meeting the needs of domestic customers, know exactly what these same customers want when they go abroad (particularly to unfamiliar places). In the mass tourist business, hotels, airlines and tour operators frequently combine to ensure each other of a ready-made market for each others' services. Similarly, the growth of international bulk shipping services has followed that of TNC activity, particularly in those industries (for example, oil, chemicals and agribusiness) in which the propensity for intra-firm trade is high.

Foreign sales affiliates of industrial TNCs and independent import and export merchant houses represent a different category of service companies. As shown in chapter I, they account for a large share of FDI in services. Their function is primarily to promote or sustain export markets, or to seek out and acquire inputs for their domestic activities. In some cases, notably the Japanese general trading companies (the *sogo shosha)* , they have developed into large conglomerates which have integrated backwards or horizontally into a wide range of non-trading activities or have established close long-term contractual relationships with manufacturing firms and primary producers. Their main ownership advantages arise from their control over a global network of activities, their bargaining power (particularly in respect to the terms and conditions of trade), their knowledge of market conditions for the products they buy and sell, their ownership of wholesale and retail trading outlets, their capacity to assemble and process vast amounts of information; and their ability to reduce foreign exchange risks and environmental turbulence by diversifying their trading portfolios. In addition, the last two decades or so have seen a growth in specialist transnational buying groups or consortia, representing leading wholesale or retail outlets in the United States and Western Europe (for example, Sears Roebuck, C&A, Marks & Spencer) (see chapter I).

In summary, service-producing TNCs possess competitive advantages similar to those possessed by industrial firms. However, of particular significance in explaining the growth of FDI in services are those advantages which result from the ability of service TNCs to offer a high and consistent quality of services; to develop economies of scale and scope; to obtain privileged access to particular input or output markets; to offer customized services to develop niche markets; and to seek out, assemble, interpret and manage high-quality information.

C. Location-specific advantages

In principle, firms possessing any of the competitive advantages identified in the preceding section have a choice of where they (or the firms to which they sell the right to use those advantages) engage in value-adding activities. But it has to be kept in mind that the intangibility and perishability of many services (and consequently their prohibitive cross-border transaction costs) require that their production and consumption must take place at the same place and at the same time. As has been seen in chapter I, FDI is therefore the most convenient (and in many instances the predominant) form of delivering services to foreign markets in many service industries. Similarly, the growth of trade, industrial FDI, transfer of technology and travel has been accompanied by increased demand for services facilitating and supporting this growth. In the process, TNCs servicing their clients in their home countries are pulled along to establish themselves abroad; in this context, the behaviour or anticipated behaviour of competitors is also likely to affect locational decisions, especially in oligopolistic service industries whose firms tend to follow the leader (Knickerbocker 1973). At the same time, by gaining experience in foreign markets, TNCs have added to their initial competitive advantages. As TNCs are prompted to globalize their business in an attempt to meet the needs of their transnational and other customers and to promote a distinctive brand image, the tendency for competitive advantages to become more firm specific increases. This explains to a large extent the growth of United States, Western European, and Japanese TNC involvement in the "up-market" sectors of many professional services, some education and health services, real estate, and in those consumer services in which brand names or trademarks are important, for example, hotels, fast-food chains and some retail stores.

Apart from these general reasons, a variety of very specific factors influence the location of TNC activities in services (table IV.2). Table IV.3

Table IV.2 Location-specific advantages
(Advantages relevant to explaining TNC activities in service industries in bold)

Spacial distribution of natural and created resource endowments and markets.
Input prices, quality and productivity, for example, labour, energy, materials, components, semi-finished goods.
International transport and communications costs (which in case of services can be prohibitive).
Investment incentives and disincentives (including performance requirements etc.).
Artificial barriers (for example, import controls) to trade in services.

Infrastructure provisions (commercial, legal, educational, transport and telecommunication).
Psychic distance (cultural differences).
Psychic distance (language, business, customs etc. differences).
Economies of centralization of information-gathering and interpretation.
Economies of centralization of R & D, production and marketing.

Economic system and policies of Government; the institutional framework for resource allocation.
Regulation of markets and/or access to markets by Governments.

Source: J. H. Dunning, "The eclectic paradigm of international production: a restatement and some possible extensions", *Journal of International Business Studies* (1988), forthcoming.

documents some of those identified in a recent examination of the locational determinants influencing FDI in business-service industries in the United Kingdom. Generally, being close to customers and adapting products to their local customs and needs probably plays a more important role in the services than in the manufacturing sector. The size and character of markets, as well as real wage rates, are also significant in influencing the siting of business and professional services and of tourist-related activities. The availability of key human and natural resources is of crucial relevance in some industries. The siting of tourist hotels depends on the location of the scenery, climate and physical amenities which visitors are seeking; the siting of financial and insurance institutions, particularly when intended to serve a region or when they are part of a global network of activities, depends on an adequate supply of premises, communication facilities and suitably trained labour. There are also agglomerative and linkage-related economies of being close to competitors, suppliers and customers. The clustering of groups of finance- and trade-related activities in the City of London is testimony to this fact (Dunning and Morgan, 1971). More generally, the provision of most production and high-income consumer services appears to be concentrated in the larger and wealthier countries, and in the leading cities in those countries. Where these activities supply regional or global markets, they can be fairly footloose between alternative locations. Indeed, it is worth noting that the fastest growing service industries currently seem to be those which are subject to economies of scale and scope, tend to be concentrated in a few countries, are regionally or globally oriented in terms of markets and most likely to generate a substantial amount of intra-firm trade.

The role of Governments in influencing the location of service activities is of particular significance -- and, in general, considerably more so than in the manufacturing sector. Not only do the same kind of incentives, controls and regulations which affect trade and FDI in goods also abound in services, but, as documented in detail in chapter VI, the markets for many services are subject to much more regulation than their goods counterparts. Although there has been some movement towards deregulation and the liberalization of FDI in some service industries in recent years (for example, telecommunications, finance and insurance), many others remain firmly under government control or surveillance. In addition, foreign TNCs may face a range of non-tariff barriers and are sometimes treated less favourably than indigenous companies.

On the other hand, some Governments are making a deliberate effort to attract inward investment in services, particularly in infrastructure projects. Examples include Chile's efforts to attract United States TNCs in the health-care and sanita-

Table IV.3 Factors influencing the decision of transnational corporations to establish business-service activities in the United Kingdom, mid-1980s
(Percentage of respondents)

Factor	*Engineering consultancy*	*Management and related business services*	*Computer and information technology*	*Trade and finance*
No previous links with the United Kingdom	(12) [a]	(14) [a]	(8) [a]	(13) [a]
Existence of a large potential market	66	100	100	100
Cost of exporting: travel costs, information loss, inconvenience:	50	21	-	-
Need for personal presence: face-to-face contact with affiliates or customers, need to be close to market, prestige	100	100	100	100
Competitors already or about to have local operations	66	43	12	54
Inability to identify suitable licensee	-	29 [b]	12	23
Take-over of existing firm	-	-	-	-
Difficulty in writing effective (enforcible) contract with licensee	25	29 [b]	25	54
Difficulty in controlling product-quality of licensee	25	36 [b]	25	54
Fear of underperformance by licensee	12	36 [b]	12	23
Fear of overperformance by licensee	-	-	12	-
Need to capture benefits of integrating activities in United Kingdom with other parts of corporation's activities	25	43	25	54
Some previous links with the United Kingdom	(4) [a]	(4) [a]	(8) [a]	(3) [a]
Market growth	100	100	100	100
Increased cost of exporting: travel costs and or frequency	-	25	12	-
Increased need for personal presence, image	100	100	100	100
Competitors opening local operations	75	25	37	66
Expiry of license or management contract	-	-	-	-
Disappointment with performance of licensee	-	-	25	-

Source: J. H. Dunning and G. Norman, "The location choice of offices of international companies", *Environment and Planning*, No. 19 (1987), pp. 613-631.

a Figures in parentheses are numbers of respondents.
b Related business services only.

tion sectors; Brazil's invitation to foreign TNCs to participate in some of the multibillion dollar highway, port and railroad construction schemes; and Greece's decision to invite bids from foreign investors to build a new international airport and subway system in Athens and an expressway linking Athens with Thessaloniki. Other Governments are seeking to attract financial and business services. For example, Bahrain, Curaçao, Luxembourg and Singapore have successfully developed offshore financial facilities; Barbados, Ireland and Jamaica are trying to create a comparative advantage for themselves in the supply of well trained and motivated labour for certain business services; and Barbados, China, India, Jamaica, Mexico and the Philippines are attempting to attract offshore data-entry services for TNCs. In sum, apart from the limited tradability of many services, government policies are probably the single most important factor influencing the location of FDI in services. For this reason, chapter VI examines governmental policies and regulations in some detail.

D. Internalization advantages

1. Alternative modes of cross-border organizational forms

Why should firms located in one country wish to exploit their competitive advantages in another country by engaging in vertical or horizontal integration through equity ventures, rather than by using a variety of non-equity forms, for example, by leasing the rights to use those advantages to indigenous firms in a foreign country? For service firms to become TNCs, they must engage in foreign direct investment. Such investment is assumed to be necessary for firms to exercise authority over the way in which their competitive advantages are used across national boundaries or, in some cases (for example, to capture the advantages of intra-group transactions), to acquire the competitive advantages in the first place. The fact that they choose FDI rather than contracting rights to foreign firms suggests that they perceive that there are certain transaction costs associated with the latter mode of exchange which impede them from securing the full economic rent on their assets. By internalizing the market (that is, co-ordinating the use of their assets with other value-adding activities), firms believe they can protect their position; in doing so, they become TNCs or increase the extent of their transnationality (table IV.4).

The modalities of organizing transnational activities vary from wholly owned subsidiaries at the one extreme to the utilization of spot markets at the other, with joint ventures and a host of contractual and collaborative agreements (for example, licensing, technical agreements, management contracts, sub-contracting, franchising, and so on) in between. Most large TNCs engage in a wide range of equity and non-equity ventures and a variety of quite specific co-operative arrangements. Except in the case of spot markets, each involves some kind of continuing pre- and post-transactional relationship between the buyer and seller and usually an asymmetry in the economic power of one party to control or influence the actions of the other. While in an administered exchange of services it is possible to speak of markets being internalized and absolute control being exerted over the terms of the transaction by the owner of those services, in many contractual relations, either the seller or the buyer tends to lay down conditions of production and/or marketing of the product for at least the duration of the contract. This represents a quasi-integration or internalization, which is widespread but very difficult to measure. Examples range from the influence of large, Japanese and Western European transnational retail and wholesale buying groups on the quality of textiles and clothing products bought from South-East Asian manufacturing firms, to hotel chains exerting exacting management standards over the foreign hotels which bear their names, to airline companies insisting on rigorous standards of servicing their aircraft at all the airports into which they fly, to accounting partnerships requiring specific standards for the preparation of both foreign and domestic audits, to automobile companies ensuring that their foreign distributors offer adequate after-sales repair and maintenance facilities for the vehicles they sell.

The way in which firms organize the cross-border exploitation of their competitive advantages is first determined by the relative costs and benefits of alternative modalities and, second, by the extent and pattern of government intervention. The costs associated with equity ventures include:

- The capital required to establish equity ventures and the risks of loosing this capital;
- The costs of managing, co-ordinating and monitoring equity ventures abroad; and
- Gains foregone from purchasing from specialized producers and more efficient suppliers.

The costs associated with non-equity ventures are mainly of a transactional nature and include:

- Those relating to the transaction *per se,* for example, the search for the right contractual partner and the costs of negotiations;
- Those relating to the terms of contracts; these include price (as information is often asymmetrical, the contractee may be prepared to pay the contractor less than the service is worth); the specification of the service to be supplied; control over the use made of the service supplied; and frequency and timing of deliveries (including inventory and warehousing costs);
- Those relating to the monitoring of the performance of the contractee, particularly with respect to quality control and inspection procedures;
- Those relating to the uncertainty of whether the terms of the contract will be adhered to

Table IV.4 Internalization advantages
(Advantages particularly relevant to explaining TNC activities in service industries in bold)

Avoidance of search and negotiating costs.
To avoid costs of enforcing property rights.
Buyer uncertainty about nature and value of inputs (for example, technology) being sold.
Where market does not permit price discrimination.
Need of seller to protect quality of intermediate or final products.
To compensate for absence of future markets.
To avoid or exploit government intervention (for example, quotas, tariffs, price controls, tax differences etc).
To control supplies and conditions of sale of inputs (including technology).
To control market outlets (including those which might be used by competitors).
To be able to engage in such practices as cross-subsidization, predatory pricing, leads and lags, transfer pricing etc., as a competitive (or anti-competitive) strategy.

Source: J. H. Dunning, "The eclectic paradigm of international production: a restatement and some possible extensions", *Journal of International Business Studies* (1988, forthcoming.

and the costs of these terms being broken (for example, disruptions to the production process through untimely or irregular delivery schedules, loss of competitiveness through dissipation or abuse of property rights) and litigation to recoup the costs associated with any broken terms; and

- Gains foregone from internalizing (for example, through pricing mechanisms) certain market transactions.

Those costs, of course, have to be balanced against each other and the benefits associated with each organizational alternative when deciding which alternative mode of cross-border organization to choose.

As to the role of Governments, this may vary between outright control over the form of foreign involvement (for example, FDI is usually not allowed in broadcasting or airlines, while only franchise agreements might be permitted between domestic hoteliers and foreign hotel chains), to various fiscal and other devices designed to tilt the balance of advantages away from one modality to another. For example, deregulation of financial markets might be expected to lead to more equity investment and fewer contractual agreements, while improvements in data technology and monitoring mechanisms might lead to the reverse situation by aiding intra-firm transactions (for example, in banking and commodity broking). Furthermore, tariff and non-tariff barriers, including restrictive provisions on the employment of aliens, might lessen the ability of firms to exploit the economies of internalization.

The types of situations in which firms are likely to wish to internalize market transactions vary according to the nature of the activity (that is, the type of service being exchanged), the firms organizing transactions, and the market conditions specific to the countries engaged in transactions. Competitive assets which are idiosyncratic, non-codifiable, comprise the core assets of firms and are used to produce services whose quality and reputation are of special appeal to consumers, are unlikely to be licensed to other firms: the risk of those assets being deployed to the disadvantage of the licensor is perceived to be too great. Similarly, the more volatile and hazardous the international environment in which services are produced and traded, the more likely firms will prefer to internalize transactions.

As a broad generalization, there are reasons to suppose that the exchange of services through the market is likely to involve higher costs (relative to total costs of production and transactions) than that of goods. There are a number of reasons which suggest that this is the case:

- Most services contain a larger element of customer tailoring than do goods, and they are more idiosyncratic;
- Since a greater human element is generally required for the production of services, their quality is likely to vary more than that of many goods; for instance, one can control the

quality of refined oil or the tolerance of an electronic component by machine, but the pure service element attached to a legal consultation, restaurant meal or shipping cruise may vary on each occasion;

- Until very recently at least, a major proportion of the information provided and the knowledge and experience connected with interpreting and evaluating the information in many service industries was tacit and non-codifiable;
- Partly because of this and the fact that certain information or knowledge related to service activities may be inexpensive to replicate, the possibility of abuse or dissipation of that knowledge is a real threat to the firm possessing it;
- Since markets for many services are highly segmented, equity control provides better opportunities for the exploitation of price discrimination; and
- The control of some service activities may be perceived to be a crucial element in the success of non-service producing companies; for example, some shipping lines may be owned by manufacturers to ensure delivery of goods on time, and many industrial firms obviously believe that they are served best if they have their own distribution networks abroad.

The question arises: to what extent do different service industries engage in different modes of cross-border organization? The fragmentary evidence that is available on the significance of the various vehicles of cross-border organization for services suggests that all forms of organization have increased in the past two decades and that the range of modalities varies at least as much as within the primary and secondary sectors.

There are three groups of services for which the cross-border supply tends to be organized by way of FDI rather than by contractual relationships. The first comprises banking and financial services and most kinds of information-intensive business and professional services, for example, management and engineering consultancies, data services, leasing companies, travel agents and airlines. Here, the main reasons for integrating either vertically along the value-added chain or horizontally across value-added chains are that much of the proprietary knowledge and information is tacit, expensive to produce, complex and idiosyncratic, but easy to replicate; and that there are substantial synergetic advantages to be gained from the geographical diversification of production activities (for example, those which arise from risk spreading and the arbitraging of people, services, assets and information), which can best be accomplished within the corporate systems of TNCs.

The second group comprises firms which engage in forward integration to maximize the efficiency of production, or to protect the quality of the end product (and hence the customers goodwill). Very often such companies are known by their brand name or image. Advertising, market research, some management consultancy firms, some business consultancy firms and some goods-related personal services (for example, motor vehicle maintenance and repair facilities) fall into this category.

The third group are trade-related service affiliates which are often owned by non-service TNCs. Their purpose is to obtain inputs for their parent companies (or, as in the case of *sogo shosha,* for other home-based companies) on the best possible terms, or to attain or develop markets for goods and services produced and exported by parent companies (see chapter I). In the first case, the protection of the supply position of the importing company and the assurance of the right quality at the right price is the dominant motive; in the second, the belief that fully- or majority-owned subsidiaries are likely to be more efficient and better motivated to serve the exporting company's interests than independent sales agents is the main reason for internalization (Nicholas, 1983, pp. 675-686). Included in this group might also be real estate companies whose purpose it is to advise and act as brokers to foreign clients to assist in the purchase of real estate.

In contrast to those industries, there are others in which minority joint ventures or non-equity agreements tend to be the preferred route of foreign participation. Four groups of service companies typify this entry or expansionary mode of TNC activity. The first group includes hotels, restaurants, fast-food outlets and car-rental companies. In these industries, the performance requirements of the contractor can often be satisfactorily codified in a management contract or franchising agreement. Synergistic advantages of global reservations and referral systems can be obtained without an equity capital stake (UNCTC, 1982); in the hotel business,

where such referral systems are particularly important, equity stakes can be both substantial and, in some parts of the world, highly risky. Moreover, although customers for hotel, restaurant and car-rental companies are often from the investing countries, local knowledge of such things as food and cultural preferences, accommodation needs, decor and ancillary services make substantial local managerial input desirable.

The second group typifies the need for local specialized knowledge even more, and especially the fact that products require specific customization. Certain business services, for example, engineering and architectural and technical services, fall into this category; so do recreational activities and accounting and local legal services, in which knowledge of local standards and procedures are required. But, perhaps most significant in this group are civil engineering, oil and chemical construction companies which engage in turnkey projects. Although the larger of these companies may sometimes have permanent offices in the countries they serve, their business is, for the main part, transitory by nature.

Thirdly, because of marketing and distribution costs, newly established or smaller manufacturing TNCs may wish to join forces with local selling agents or service firms, or use them as licensees. The presence of a local partner both reduces the capital risk of the foreign investor and helps buy complementary competitive assets or advantages necessary to exploit those of the foreign company. In industries such as engineering and construction, joint ventures with local firms can help TNCs win contracts from the Government of the host country and lessen the risks of nationalization.

Lastly, in such industries as investment banking and property/casualty insurance, the risks borne in providing particular services are such that they have to be shared by, or syndicated among, a consortia of firms. Sometimes these may involve firms from only one country and, in other cases, from several countries.

In sum, in the manufacturing sector, the more idiosyncratic and specific the assets possessed by TNCs and the more there are common management advantages, the more likely these are to be exploited by TNCs themselves rather than by non-equity forms. The fact that the propensity to conclude joint ventures or non-equity arrangements in the services sector is probably greater than in the goods sectors can be attributed to three factors uniquely associated with the former sector. The first is that, as has been documented in chapter II, the degree of transnationality in the services sector is less than that in the goods sector; in consequence, the economies of common management associated with transnationality are less pronounced. Second, it would seem that more of the key competitive advantages of several (but not all) service-supplying TNCs can be codified and, hence, more easily transferred and controlled through non-equity agreements than in the case of their equivalents in manufacturing. A good example is the propensity of TNCs in the hotel industry to prefer management contracts and franchising arrangements with their foreign associates than equity relationships. Third, the role of government regulations and the need to customize services to meet the needs of local consumers often means that the ownership advantages of TNCs have to be combined with those of firms in the country in which the services are sold, if the economic rent of the former is to be maximized.

2. Trends in organizational forms

Over the past decade or two, several factors have encouraged the choice of majority- or wholly-owned affiliates as the preferred form for the cross-border organization of service activities, while several others have operated in the opposite direction. Of the former, two deserve special mention. The first is the liberalization of the policies of several developed and developing countries towards inward direct investment in services, notably in the banking and insurance industries (see chapter VI). This has allowed the establishment of branches and subsidiaries in countries which previously preferred contractual relations. The second has been the increased use of transborder data flows (Sauvant, 1986). By reducing the cost of co-ordinating decision-making across national boundaries, the increased use of transborder data flows has facilitated centralized control or monitoring and, in fact, the provision of a range of services (for example, accounting, inventory control, various financial functions) by parent corporations which, in the

Table IV.5. Illustrations of ownership, location and internalization advantages

Industry	*Ownership (Competitive advantages)*	*Location (Country advantages)*	*Internalization (Co-ordinating advantages)*	*Organizational form*
Accounting, auditing	•Access to transnational clients •Experience of standards required •Professional expertise •Branded image of leading accounting firms	•On-the-spot contact with clients •Accounting tends to be culture-sensitive •Adaptation to local reporting standards and procedures •Oligopolistic interaction	•Limited inter-firm linkages •Quality control over (international) standards •Government insistence on local participation	•Mostly partnerships or individual proprietorships •Overseas subsidiaries loosely organized, little centralized control •Few joint ventures
Advertising	•Favoured access to markets (subsidiaries of clients in home markets) •Creative ability; image and philosophy •Goodwill •Full range of services •Some economies of co-ordination •Financial strength	•On-the-spot contact with clients •Adaptation to local tastes, languages •Need to be close to mass media •Import restrictions on foreign commercials	•Quality control over advertising copy •Need for local inputs •National regulations •Globalization of advertising intensive products •Reduced transaction costs with foreign agencies	•Mainly 100 per cent ownership, some joint ventures; limited non-equity arrangements
Commercial banking, financial services	•Access to transnational clients, foreigners abroad •Professional expertise •Access to international capital and financial markets •Economies of size and scope •Intrinsic value of reserve currencies •Control over transnational computer-communication networks	•Person-to-person contact required •Government regulations •High-value activities often centralized •Lower costs of foreign operations	•Quality control •Economies of scope •Economies of co-ordinating capital flows •Importance of international arbitraging	•Mostly branches or subsidiaries, some agencies •Some joint ventures, notably, where Governments insist •Some consortia
Construction management	•Size, expertise and reputation •Government assistance •Low labour costs (developing country TNCs) •Experience in relevant environmental conditions	•Economies of concentrating technology-intensive activities •On-the-spot interaction with clients and building firms	•Need for complementary local assets, risk-spreading on large projects •Quality control •Good deal of sub-contracting	•Mixture; joint ventures favoured to gain access to markets, or where partner(s) bring complementary assets to the venture
Educational services	•Country-specific, related to stage of economic development and role of Government •Experience of client needs	•Some foreign affiliates of private schools •Need to expose students to foreign cultures	•Quality control •Integration with curricula in home country •Exposure of foreign curricula teaching methods	•Originally 100 per cent subsidiaries, but increasingly more joint ventures with educational establishments

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Table IV.5 (continued)

Industry	*Ownership (Competitive advantages)*	*Location (Country advantages)*	*Internalization (Co-ordinating advantages)*	*Organizational form*
Engineering, architecture, surveying	•Experience in home and other foreign markets •Economies of size and specialization •Economies of scope co-ordination	•Customization to local tastes and needs •Need for on-the-spot contact with customers and related producers	•Joint ventures, to gain local experience expertise •Quality control •Knowledge often very idiosyncratic and tacit	•Mixture, but often professional partnerships •Some licensing
Hotels	•Experience in home countries of supplying up-market services •Experience with training key personnel •Quality control •Referral systems •Economies of geographical specialization, access to inputs	•Location bound when selling a 'foreign' service	•Investment in hotels is capital-intensive •Quality control can generally be ensured through contractual relationships (e.g., a purchase or management contract) •Governments usually prefer non-equity arrangements •Referral systems can be co-ordinated without equity control	•Vary, but mainly through minority ventures or contractual relationships
Insurance	•Reputation of insurer, image (e.g., Lloyds of London) •Economies of scale and scope; sometimes specialized expertise (for example, marine insurance) •Access to transnational clients	•Need to be in close touch with insured (e.g., life insurance and related services shipping finance •Oligopolistic strategies among larger insurers •Governments prohibit direct imports, regulatory provisions •Economies of concentration (in reinsurance)	•Economies of portfolio risk-spreading •Tacit knowledge •Need for sharing of large scale risks (reinsurance syndication) •Government requirements for local equity participation	•Mixture; strongly influenced by Governments, types of insurance and strategy of insurance companies
Investment banking (brokerage)	•Reputation and professional skills •Substantial capital base •Knowledge of and interaction with international capital markets •Financial innovations	•Need to be close to clients •Need to be close to international capital finance markets, and also main competitors •Availability of skilled labour	•Complex and organic character of services provided •Protection against exchange political risks •Need to pursue global investment strategy •Quality control	•Mainly via 100 per cent subsidiaries
Legal services	•Access to transnational clients and knowledge of their particular needs •Experience and reputation	•Need for face-to-face contact with clients •Need to interact with other local services •Restrictions on use of foreign barristers in court •Extent of local infrastructure	•Many transactions highly idiosyncratic and customer-specific •Need for understanding of local customers and legal procedures •Quality control	•Overseas partnerships
Licensing	•(By definition) ability to supply technology; but most technology supplied by non-service firms		•To protect licensor and to exploit economies of scope •Quality control	

Table IV.5 (continued)

Industry	*Ownership (Competitive advantages)*	*Location (Country advantages)*	*Internalization (Co-ordinating advantages)*	*Organizational form*
Management consultants, public relations	•Access to market •Reputation, image, experience •Economies of specialization, in particular, levels of expertise, skills	•Close contact with client; the provision is usually highly customer-specific •Mobility of personnel	•Quality control, fear of underperformance by licensee •Knowledge sometimes very confidential and usually idiosyncratic •Personnel co-ordinating advantages	•Mostly partnerships or 100 per cent subsidiaries
Medical services	•Experience with advanced specialized medicine; high quality hospitalization. •Modern management practices •Supportive role of Government		•Quality control	•Wholly owned and joint ventures •Contractual selections
Motion pictures (production and rental receipts); live entertainment (theatre)	•Experience in home markets, good domestic communication (e.g., broadcasting) facilities •Government subsidies of arts	•Location bound (motion picture production) •Sometimes customers visit place of production and sometimes vice versa •Union restrictions on use of foreign actors	•Quality of film production and T V programmes •Theatre production usually involves non-equity contracts	•Mixed
Regional offices	•Part of TNC network; functions of office vary according to nature of TNC business and extent of foreign operations	•Depends on labour, office, communications costs where offices are located •Work permits, taxes, etc. •Location of goods-producing units of TNCs	•All advantages relate to economies of co-ordination, and acting as agent on part of parent company	•100 per cent owned
Restaurant, car rentals	•Brand name, image of service •Reputation and experience •Referral systems •Economies of scale and scope •Tie up deals with airlines and hotels	•Location bound	•Franchising can protect quality control	•As with hotels
Software, data processing	•Linked to computer hardware •Highly technology information intensive •Economies of scope •Government support	•Location of high skills and agglomerative economies often favour home country •Government incentives to encourage offshore data entry	•Idiosyncratic knowhow; need for protection against dissipation •Quality control •Co-ordinating gains	•Often part of computer companies

Table IV.5 (concluded)

Industry	*Ownership (Competitive advantages)*	*Location (Country advantages)*	*Internalization (Co-ordinating advantages)*	*Organizational form*
Telecommunication	•Knowledge-intensive •Technology, capital, scale economies (for example, ability to operate an international communications network) •Government support	•Government regulation of trade and production •Sometimes location bound (telephone communications)	•Large costs often require consortia of firms •Quality of "goods" part of service often needs hierachical control (for example, by companies like AT&T); otherwise, service usually provided on leasing basis, or exported	•Mixture, but a good deal of leasing
Tourism	•Reputation in providing satisfactory experience goods •Economies of scope (kind of travel portfolio offered) •Bargaining power •Quality of deals made with airlines, hotels, shipping companies etc.	•Need for local tour agents and support facilities •Customers initially originate from home country •Costs of supplying local facilities usually lower •Fiscal incentives and infrastructure facilities	•Co-ordination of itineraries, need for quality control of ancillary services for tourists •Preferences of host Governments for local support facilities •Economies of transaction costs of vertical integration	•Large tour operators have local offices; others may use agents.
Transportation, shipping, airlines	•Highly capital intensive •Government-support measures, and or control over routes of foreign carriers •Economies of scope and co-ordination •Linkages with producing goods firms (in shipping)	•Essentially location linking •Need for local sales office, terminal maintenance and support facilities (at airports and docks)	•Logistical management •Advantages of vertical integration •Quality control	•Mostly 100 per cent owned subsidiaries •Some consortia of TNCs

past, had been mainly provided locally.[3] As the application of data services becomes more widespread and telecommunication costs decrease, it may well be that parent corporations will perform even more services for their foreign affiliates, both as regards various internal activities of those foreign affiliates (for example, accounting) and the actual services rendered by them. In the extreme case (and this is particularly relevant for information-intensive services), foreign affiliates could become mere information-input facilities linked via transnational computer-communication systems to regional offices or headquarters, where most of the value-adding activities take place. If those developments should, indeed, occur, many foreign service affiliates may become primarily gateways to their parent corporations rather than engage in service-producing activities of their own.

On the other hand, certain factors encourage the increased use of minority joint ventures and contractual arrangements:

- The increasing ability of sellers to exercise control over their proprietary rights through appropriately worded contracts permits firms in industries as diverse as hotels, construction and some data services to opt for technical

3 In banking, for example, data technology has made it possible for managers to centralize information resources in areas such as foreign currency trading and economic forecasting on a global scale. In computing, IBM's world-wide communications network allows it to introduce design changes in all its manufacturing facilities around the world in a single day. Similarly, the Bechtel Group has set up a computer and communications network which enables it to co-ordinate the activities of engineers in India, project managers in San Francisco and construction supervisors on site in Saudi Arabia.

service agreements, management contracts, or franchises as a modality of operation;

- As economic development proceeds, indigenous service capabilities will be upgraded; consequently, foreign TNCs will be in a better position to conclude joint-venture or non-equity agreements with local firms;
- The infrastructure required to provide some services, particularly those which are information intensive, is becoming so costly that it is difficult for individual firms to establish it by themselves. Consequently, the incentive to collaborate with other service firms is great. Such arrangements can help their participants to share financial risks, while capturing the advantages of joint information and technological synergies. Obvious cases in point are SWIFT and SITA, both closed user-group networks of, respectively, banks and airlines; and
- The increased application of data technologies may provide sufficient control and monitoring possibilities, making actual equity participation unnecessary.

Naturally, the impact which those factors have (and, for that matter, those in the preceding paragraph) depends very much on corporate strategies and preferences. But it seems clear that the range of options open to service TNCs to organize their cross-border activities is increasing.

E. Conclusions

The transnationalization of service industries depends on the competitive advantages of the investing firms, the locational advantages of producing in two or more countries, and the way in which firms organize their cross-border value-adding activities. The utilization of these advantages depends primarily on the relative costs of equity and non-equity forms of managing interrelated economic activities. Indeed, the way in which firms organize their international activities may itself be a crucial competitive advantage. Table IV.5 sets out the main competitive advantages of TNCs in various service industries; the more important characteristics of countries which favour a home or foreign location for value-adding activities using such advantages; and the leading considerations affecting the modality by which TNCs exploit that competitive advantage. It also gives some indication of the way in which foreign markets are penetrated and the extent to which the organization of cross-border activities differs between service industries.

Together with the fact that many services are difficult to trade, these considerations explain both the presence and rapid growth of TNC activity in services. The future expansion of FDI in services is further encouraged by the fact that, as incomes rise, people and firms spend more on services; that technology, information and software services are becoming increasingly significant inputs for the production process of all types of goods and services; that non-service firms are becoming increasingly involved in service activities (examples include the diversification of large petroleum TNCs into banking and of computer hardware companies into the provision of software); and that, as the provision of some services becomes more complex, specialist service companies are being established.

In sum, this chapter has sought to identify the main competitive advantages of TNCs in providing services, the way in which those advantages are best used to advance the strategic goals of TNCs, and the reasons why, at least for some, the value-adding activities which those advantages generate are undertaken outside the home countries of TNCs. To quite an extent, the factors encouraging the transnationalization of services are similar to those in the goods sector. There are, however, some important differences. Quality control and, in particular, reputation, economies of scope and scale, access to markets and especially the capacity to acquire, assemble and interpret information are all more important ownership advantages for service than for goods TNCs. By contrast, R & D intensity and the role of patents is considerably less important for service than for industrial TNCs. Furthermore, government regulation and the higher transaction costs of exporting certain services are generally more important in determining the location of the production of services than that of goods. At the same time, the ability to codify some competitive advantages in management contracts and franchising agreements explains why non-equity forms are more prevalent in the services than the industrial sector. However, those general conclusions should not mask the fact that there are as many differences in the characteristics of ownership, locational and internalization advantages between service industries as there are between

service and goods-producing industries.

This chapter has also identified some of the reasons for the growth of TNC involvement in the services sector over the past two decades and, in particular, why FDI has been the preferred route for organizing cross-border activities involving services. Special attention has been paid to the increasing need of firms, both in service and non-service industries, to integrate their domestic activities vertically or horizontally, with services obtained from, or sold to, foreign countries, and the fact that, over recent years, both demand and supply-led forces have intensified the advantages associated with an internalization of interrelated activities involving services. Moreover, new opportunities for industrial and geographical diversification have created their own locational and ownership advantages which have strengthened the position of TNCs in an increasing number of service industries. This trend can be expected to continue in the late 1980s and 1990s, especially if Governments take a liberal attitude to FDI in services.

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V. FOREIGN DIRECT INVESTMENT IN SERVICES AND DEVELOPMENT

A. Introduction

The efficient provision of services is essential for all economies, developed and developing alike. In many developing countries, however, the contribution of services to economic development has not yet been fully recognized (UNCTAD, 1984 and forthcoming: Riddle, 1986). For instance, services do not normally figure in national development plans. But the rapid development of sophisticated producer services and a greater appreciation of their importance for the modernization of the entire economy are beginning to change perceptions. An example is Singapore, where an Economic Committee concluded that, "As an industrial centre, we must move beyond being a production base, to being an international total business centre" (box V.1).

As developing countries come to realize the importance of the services sector and of the need to remedy inadequacies in the provision of services, they face three basic questions.

The first concerns service development priorities: given the scarcity of resources characteristic of developing countries, which services are particularly crucial to overall economic development? In the light of the heterogeneity of developing countries and service industries, the answer to this question and the resulting policy options are most likely to be country- and industry-specific. However, there are at least some categories of services that play a vital role in all economies. The first group consists of basic infrastructure services, such as transportation, telecommunications, utilities and banking. Second is a group of services commonly referred to as producer services, including data services, R&D, engineering, legal services, advertising, consultancy, engineering and insurance. And, finally, a group of information-based services is sometimes singled out for their importance, including banking and data services. Although the distinction between these groups is not clear-cut (some infrastructure services, for example, telecommunications or banking, are also producer services), their common characteristic is that they have important spillover effects for the economy as a whole, and many of them are particular beneficiaries of the information revolution. Often, the challenge is to eliminate basic bottlenecks. Thus, for instance, a number of oil-exporting countries faced serious problems in absorbing imports because port facilities were so inadequate that ships had to wait months until they could be unloaded.

The second question concerns the need for indigenous service-production capacities: to what extent should developing countries devote domestic resources to building up the wide array of services required by a modern economy? It is possible that countries that are well-endowed with human resources and possess large markets may be able to develop comparative advantages in some services rather quickly. Therefore, it may be in their long-run interest to opt for the nurturing of domestic industries. But even large countries may lack enough capital and expertise to build up efficient service industries which are capital- rather than labour-intensive. Countries which lack capital, an adequate level of skills, or domestic markets of sufficient size, might find foreign sources of supply to be the most rapid and cost-efficient means of gaining access to the services involved.

This leads to the third question: if services are to be obtained from abroad, should this be done through trade, FDI, or such non-equity forms as turnkey contracts, management contracts and licensing or franchising agreements? In considering these alternatives, it must be kept in mind that many services are difficult to trade.

The present chapter focuses on the provision of services through TNCs, as measured by FDI statistics. Specifically, its purpose is to make a first step towards a more comprehensive examination of the contribution that service TNCs can make to host countries, particularly developing countries.

Even such a first step is difficult to take. For one thing, care has to be taken not to accept uncritically established views of FDI in services. Traditionally, host countries have perceived the risks of permitting investment by service TNCs as larger, and the potential benefits as lower, than those arising from investments by industrial TNCs. While non-economic considerations (for example, the cultural impact of foreign advertising) have played a role in shaping those perceptions, economic ones have also been at work. Services are typically seen as low-technology, low-skill activities which, at best, can absorb some unemployment at the low-skill end of the labour market. Furthermore, since services tend to be non-tradable, FDI in services is normally seen as not making a contribution to the balance of payments.

neither through exports nor through import substitution. All this adds up to a perception that FDI in services has little or nothing to offer to host countries. On the contrary, FDI in some industries is sometimes considered as potentially impairing development, for example, when a large presence of foreign banking affiliates is seen as constraining monetary policies.

Furthermore, although a voluminous literature on the role of FDI in development exists, it deals almost exclusively with extractive and manufacturing TNCs and only occasionally with some service industries (for example, banking). There is, therefore, little to draw on, especially since relevant data are rare.

In the light of this, the role of service TNCs in development is inferred from (1) an examination of the economic characteristics of service industries and service firms from developed market economies, particularly those from the United States, the only country for which relatively comprehensive and detailed data on service TNCs exist; (2) an interpretation of the particular advantages (most notably ownership-specific advantages) transferred by service firms to developing countries through FDI. The second approach is based on (the theory) chapter IV (and especially its summary table IV.5), and supplements the first approach particularly where certain factors (for example, quality control) are captured only imperfectly by the available data. For the first approach, two sets of data pertaining to United States TNCs are used: those pertaining to parent corporations and those pertaining to foreign affiliates. Parent company data are used because the characteristics of those companies give an indication of what, at best, could be expected from their foreign affiliates. For instance, if parent firms perform little R&D, there is little opportunity for them to transfer the fruits of their research to foreign affiliates. Similarly, if parent firms are not capital-intensive, skill-intensive or export-oriented, it might be reasonable to suppose that foreign affiliates will not move very far in this direction either. [1] However, while the characteristics of parent firms set a limit on what can be transferred, this does not necessarily mean that transfers will actually take place. In addition, the characteristics of parent firms may forecast the future of the affiliates. Foreign affiliates may be, to some extent, immature versions of the parent firms, initially carrying out very limited portions of the parents' activities, but eventually undertaking a fuller range of functions. In other words, they may acquire the characteristics of the parent firms because they themselves increase in size and achieve scale economies that were not possible at the beginning. Or, they may approach the characteristics of parent firms, because host country economies develop or reach higher income levels and the higher wage-cost levels that go with them.

The second, and perhaps more important, set of data concerns the characteristics of foreign affiliates, because these characteristics determine the impact of affiliates on the host country. After all, foreign affiliates need not be diluted or immature versions of their parent firms: a TNC could conceivably decide to place most of its R&D activity in affiliates, could operate abroad in a more capital-intensive or skill-intensive way than at home or supply its export markets more from its affiliates than from the home country.

The subsequent analysis focuses on the extent to which service TNCs play a role in four areas of particular importance to the development process: technology (whereby technology is construed broadly to encompass both that embodied in plant and equipment and disembodied technology in the form of knowledge and skills); the level of employment; the role of service affiliates in trade; and their linkages with other sectors. Given the nature of the data available, the contribution of service TNCs in these areas cannot be assessed in comparison with domestic firms, but only in comparison with foreign manufacturing affiliates. Finally, against the background of the actual importance of service TNCs in host countries, the various impacts are drawn together for a brief overall assessment of the role of services FDI in development.

B. Hard and soft technologies

Technology is a major source of economic growth and development. The importance of TNCs in the generation, application and interna-

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1 Ideally, one would wish to distinguish parent firms with operations in developing countries from those with operations in industrialized countries only, and also to have information on all parents of service-industry affiliates; however, published data are not available on both variables. The data available are on service-industry parents that have foreign affiliates. Most of those affiliates are in service industries, but some are also in other sectors.

Box V.1 Thinking about national service development

In 1985, the Minister for Trade and Industry of Singapore set up an Economic Committee to review the progress of the Singapore economy and to identify new directions for its future growth. The report which the Committee submitted in 1986 (and which was adopted by the cabinet) paid considerable attention to services. The following are excerpts from its executive summary:

"Opportunities in Services. *Counterbalancing the slowdown in international merchandise trade is the growth in trade in services, such as banking, insurance, tourism, engineering, consultancy and professional services. World service trade has in recent years been growing twice as fast as merchandise trade. The trend is likely to continue.*

This trend is important to Singapore. Our comparative advantage in exporting services is greater than our advantage in exporting goods. We have comprehensive transport and telecommunication links to the rest of the world. We have a well-educated, English-speaking work-force. Together with manufacturing, services will clearly be a leading growth sector in future. ...

Beyond Manufacturing. *As an industrial centre, we must move beyond being a production base, to being an international total business centre. We cannot depend only on companies coming to Singapore solely to make or assemble products designed elsewhere. We need to attract companies to Singapore to establish operational headquarters, which are responsible for subsidiaries throughout the region. In Singapore such headquarters should do product development work, manage their treasury activities, and provide administrative, technical and management services to their subsidiaries. Then it becomes worthwhile for them to establish a plant in Singapore, to produce goods or services for export.*

Exporter of Services. *Singapore should become a major exporter of services. Services account for an increasing share of our GDP, and our service exports have been growing as quickly as world trade in services. Scope for growth is still huge. We need to promote not just Singapore-based*

tional transfer of technology is undisputed. When examining the technological impact of service TNCs, it is important to distinguish between technologies which are embodied in plant, equipment and industrial processes ("hard" technology) and technologies which consist mainly of know-how, management, marketing, technical, professional and other skills ("soft" technology). Accordingly, technological outputs not only take the form of new or improved machinery, but also new or improved services, management techniques, systems of quality control etc. Reverse engineering illustrates the difference between hard and soft technologies. Many goods (automobiles, bicycles, television sets) produced with hard technologies can be disassembled, copied and reassembled without guidance from the original producer. For many services produced with soft technology (for example, approved loan applications, risk assessments, successful advertising campaigns), reverse engineering is not possible. Hard technologies are often measured in terms of R&D expenditures, while soft technologies can be measured in terms of skills as expressed in levels of compensation. Thus, technical knowledge is not only incorporated into plant and equipment, but also into human skills, and TNCs may help bring both of them to host countries.

Financial services are a good example of technology developed and transmitted by employee skills rather than by R&D. Some of these skills are linked to the use of physical capital (such as computers), but others involve intellectual capital accumulated through education and experience. A good example of an industry requiring specialized technical knowledge but investing little in formal

activities like tourism or banking, but also offshore-based activities, like construction firms building hotels in China, and salvage firms operating in the Middle East. We have started to do this, but there are many more opportunities, in China and elsewhere. For example, we have expertise in hotel management, air and sea port management, town and city planning. These skills should be systematically marketed. ...

GNP, not merely GDP. *If we succeed in becoming a base for regional operational headquarters of MNCs, and in becoming an exporter of offshore services, our affluence will not depend only on what we can produce in Singapore. It will also depend on what we earn from abroad. Our offshore activities will be extensions of our domestic economy. With income streams from abroad, Gross National Product, rather than merely Gross Domestic Product, will be the measure of our success. Singaporeans must seek opportunities wherever they can be found. The more widely and keenly we can spot opportunities overseas, the more secure and broadly based will be our well-being. ...*

Our greatest potential for growth lies in this area: banking and finance, transport and communications, and international services. It has been growing rapidly, and given positive support, should continue to do so. The government must promote services actively, the same way it successfully promoted manufacturing. It should depend not only on the growth of local Singapore companies, but also on attracting international service corporations to set up in Singapore. The EDB should be given the task of attracting such companies, in co-ordination with the respective ministries and statutory boards responsible for individual professions and sectors. MTI should be given overall responsibility for promoting services. Suitable incentives, including taxation of income from international services at a low rate, will speed the shift towards a service economy."

Source: Singapore, Report of the Economic Committee, *The Singapore Economy: New Directions* (Singapore, Ministry of Trade and Industry, 1986), pp. 11, 12, 13, 19.

R&D is insurance. Insurance operations involve complex issues involving the measurement and diversification of risk and of the reduction of certain types of risk by the matching of maturities on assets and liabilities. Insurance underwriting is especially complex for large industrial facilities in, for example, petroleum refining, chemical production, mining and smelting. It requires inputs from engineers, lawyers, bankers, physicians and other professionals experienced in identifying and measuring risks in a variety of circumstances (Wasow and Hill, 1986). There are many similar examples outside the field of finance (see table IV.5). For instance, the operation of franchised services such as in fast-foods (described in chapter IV) involves the development of techniques of quality control and financial control that owe little to formal R&D efforts.

Finally, quality control systems are one of the pre-conditions for a successful export-oriented industrialization strategy. While some developing countries rely increasingly on their own trading companies in this respect (see chapter I), in many other countries those functions are assumed by affiliates of transnational trading corporations (box V.2).

More often than not, the technological edge of industrial TNCs is based on hard technologies, although the skillful application of such soft technologies as the organization of assembly-line or "just-in-time" production processes can greatly enhance industrial production and provide important competitive advantages. R&D is, in fact, one of the main sources of the ownership-specific advantages that have spurred the transnationalization of industrial firms, given them a competitive edge abroad and made them attractive to host countries. In service industries, however, and among service TNCs, soft technologies are a much more important source of competitive advantages (see chapter IV); the major potential contribution of service TNCs to host countries must, therefore, be sought in this area. And indeed, countries are increasingly interested in the technology required,

Box V.2 Soft technology and the export of goods: the importance of quality control

Big department stores, whether they sell their foreign-made products under their own brand name (like the colour television sets of Montgomery Ward and Sears Roebuck, or the top-of-the range shirts of Marks & Spencer) or more anonymously (as in the case of Brazilian leather-upholstered furniture or Filipino rattan products), tend to be extraordinarily quality conscious and impose very strict quality-control standards on their suppliers. This quality consciousness, motivated both by the strong competition between the various retail chains in the industrialized countries themselves and by the high financial penalties involved in large purchase of poor-quality goods, has had very obvious positive effects on their developing country suppliers. It has contributed to developing among those suppliers a much greater sensitivity to quality, in general, and the management of quality control, in particular.

The quality-control mechanisms set up by the big retail chains play another important if less conspicuous role: they serve in effect as a complement to the still poorly developed national agencies responsible for checking the quality of export products. As the experience of Japan in the early decades of this century clearly shows, a newly industrializing country can easily fall prey to the temptation of exporting cheap, low-quality manufactured goods. In the short run, it may achieve significant export successes, but the poor international image which develops as a result of such practices will then take years, if not decades, to overcome. Such a negative image, furthermore, operates as a major obstacle to the export efforts of the country's industrial transition towards more sophisticated products with a higher value-added. After the Second World War, Japanese planners and the main industry associations made enormous efforts to build up effective quality-control mechanisms for exported goods and largely succeeded in overcoming the poor reputation established by the shoddy exports of the 1920s and 1930s.

Building up effective export quality-control mechanisms at the national level can be a very long and painstaking effort, especially if it has to start with the legacy left by massive exports of poor quality manufactured goods. In the case of the newly industrialized countries, there are good reasons to suspect that the quality-control standards imposed by the big retail chains have allowed those countries to develop an industrial quality-control culture at a much faster pace than would probably have been the case in the absence of this symbiotic relationship between purchasers and suppliers. The standards set by large foreign purchasers are obviously no substitute for quality-control mechanisms at the national level. But the existence of the former can stimulate the development of the latter, and the indirect role of the big department stores may well have been to help the newly industrialized countries to gain 10 or 15 years, if not a whole generation, in the quality-control learning process.

for instance, for designing new banking and insurance services which are unavailable in their domestic economies. Technology transfer in banking and finance may be of particular importance in view of the attempts made by a number of countries to develop their financial markets and in view of the growing importance of data technologies in these industries. Countries which rely heavily on tourism for foreign exchange often seek to modernize hotel services and obtain modern hotel management and quality control techniques from abroad. Franchise chains have developed centralized systems for all administrative functions which greatly increase economies of scale. The ability to standardize and routinize service tasks can result in both increased efficiency and increased quality control. In an industry like advertising, access to international connections, the use of

Table V.1. Characteristics of United States service and manufacturing transnational corporations, 1982

Variable	*Services*	*Manufacturing*
R&D intensity		
1. R&D expenditures as percentage of sales		
Parents	0.11	3.03
Affiliates	0.10	1.15
In developed market economies	0.13	1.31
In developing countries	0.02	0.46
2. R&D employment as percentage of total employment		
Parents	1.05	4.91
Affiliates	0.75	2.27
Skill level (Compensation per employee, thousands of dollars)		
Parents	24	30
Affiliates	19	17
In developed market economies	20	21
In developing countries	15	9
Capital intensity		
1. Physical capital intensity [a] (Thousands of dollars)		
Parents	52	30
Affiliates		
By industry of parent	21	20
By industry of affiliate	26	20
2. Assets per employee (Thousands of dollars)		
Parents	192	97
Affiliates	214	57
In developed market economies	164	65
In developing countries	348	39
Trade (Percentage of sales)		
Parents		
Total exports	6.1	11.1
Exports to affiliates	1.3	4.3
Imports from affiliates	0.9	2.9
Affiliates		
Total exports	40.3	34
Exports to parents	4.3	8
Imports from parents	8.3	12

Source: Annex tables C.1--C.5.

a Net property, plant and equipment per worker.

brand names, professional expertise and marketing skills and channels can be important advantages for firms from developing countries which associate themselves with TNCs. And the transfer of technical skills is crucial to the enhancement of professional and producer services in many host countries. But, as indicated earlier, the extent to which any or all of these possible contributions (for further examples, see table IV.5) are realized depends on the characteristics of parent corporations and their foreign affiliates which, in turn, may be industry-specific.

United States parent companies of service TNCs do not, in most cases, invest heavily in R&D (table V.1). The only parent firms in service industries that have R&D intensities anywhere close to the average of those of manufacturing parents are those in computer services (more R&D-intensive than manufacturing), wholesale trade in durables and, somewhat below these two, oil and gas field services (see annex table C.1 for details). Thus, the possibilities for a flow of technology from R&D conducted by parent firms in service industries seem likely to be confined to a few industries. In general, furthermore, since R&D is a major source of the competitive advantages of many TNCs, one would expect it to be performed mainly at home. Accordingly, one would expect the operations of parent firms to be more R&D-intensive than those of their foreign affiliates. That is, indeed, the case by a wide margin in manufacturing, where affiliates are less than half as R&D-intensive as parent firms. However, the margin between the R&D intensity of foreign affiliates and that of their parent firms is much smaller for service industries taken together than for manufacturing, although the operations in the latter are more research-intensive than those of the former in almost all individual service industries.

Given that parent companies in service industries carry out relatively little R&D, it is not surprising that the levels of R&D in foreign service affiliates are much lower than in manufacturing, although those of affiliates in some business services are not far below their equivalents in manufacturing. Overall, however, the group of service affiliates most worthy of further study as potential sources of the transfer of technology arising from R&D are those with parents in industries other than their own.

As might be expected, foreign service affiliates in developed market economies are far more R&D-intensive than those in developing countries, as is the case for manufacturing affiliates. Thus, affiliates in developing countries appear to be generating very little new technology through R&D within their own operations.

In sum, the data suggest that United States service TNCs conduct little R&D, and considerably less than their manufacturing counterparts. This holds true for both parent firms and their foreign affiliates, which hardly differ in terms of their low

level of R&D intensity. However, when affiliates in developed market economies are separated from those in developing countries, the former are considerably more R&D-intensive than the latter. Host countries in general, and developing countries in particular, can, therefore, expect little from service TNCs (as compared to manufacturing TNCs), either for the potential transfer of hard technology associated with the R & D of their parent firms or for the generation of hard technology through foreign affiliates.

The picture is entirely different for soft technology. Soft technology is human rather than physical-capital-intensive. The proxy variable used here is the skill level of employees (representing the accumulation of soft technologies), as reflected in average compensation payments per employee.

The data suggest that the average skill level of employees of parent firms in service industries is well below that of employees of parent firms in manufacturing (table V.1). There are, however, a fair number of skill-intensive service industries, including those associated with petroleum services, public utilities and construction. Within the group of producer services, finance other than banking, real estate, advertising, management consulting and public relations all have relatively high skill levels among parents (annex table C.2).

Foreign service industry affiliates, in contrast to their parent firms, are relatively high-skill operations (table V.1), probably because the bulk of services FDI is concentrated in such high-skill sectors as finance- and trade-related services. Manufacturing TNCs as a group apparently allocate low-skill operations to developing countries, as can be seen from the fact that the average compensation in these countries is less than half that in developed countries, and less than a third of that in their home-country operations. In contrast, the average compensation of foreign service affiliates in developing countries is only 25 per cent below that in developed countries, and a little more than one third below that in the United States. Indeed, in a number of service industries, such as management consulting, engineering and architectural services, the average compensation in developing countries is even *above* that of the parents in the United States, and *above* that of affiliates in developed countries. Thus, there is little evidence that these industries allocate low-skill activities to developing countries to take advantage of the low wages paid there.

As a consequence of this distribution of skilled labour, foreign service-industry affiliates as a group have about the same skill level as manufacturing affiliates in developed market economies, and a far higher level of skills than manufacturing affiliates in developing countries. This is true not only for the average, but for most individual service industries. Of those service industries shown separately in annex table C.2, 16 out of 21 pay higher compensation per employee than do manufacturing affiliates. This suggests that TNCs are either sending highly skilled employees to work in developing countries, or are using or training highly skilled indigenous workers.

United States TNCs in services do, in fact, use a higher proportion of United States citizens in their labour force abroad than do manufacturing affiliates, but the numbers are so small relative to total employment that they could not account for the difference in measured skill levels (table V.2). The highest proportions of United States citizens are in holding companies (12 per cent), oil and gas field services (10 per cent), and construction (7 per cent).

Human capital, in the form of highly skilled employees, is unlikely to move to a large degree from a country rich in that resource to host countries deficient in that resource. In this case, TNCs operating in human capital intensive industries, especially in developing countries, have to invest in the training of host-country employees, because the nature of the industries requires a relatively high level of skills. While some of the training provided may be specific to the investing firm, some of it is likely to spread, with the turnover of employees, to indigenous firms. A possible side effect of this situation is that foreign investors may compete too strongly for the host country's limited supply of skilled or educated labour and, therefore, make it difficult for local firms to grow in this type of industry.

The high skill level in foreign service affiliates, particularly those in developing countries, points to a major difference between FDI in services and FDI in manufacturing: manufacturing firms seem to be more able to take advantage of low labour costs in developing countries (perhaps for serving worldwide markets) than do service firms.

The implications for developing countries are ambiguous. From a static viewpoint, these coun-

Table V.2. The frequency of expatriate staff in United States service affiliates abroad, 1982

Sector	*United States citizens as a percentage of total affiliate employment*
Services	2.2
Manufacturing	0.4

Source: United States, Department of Commerce, *U.S. Direct Investment Abroad: 1982 Benchmark Survey Data* (Washington, Department of Commerce, 1985).

tries might prefer investment that absorbs their most abundant resource, namely, unskilled labour. But from the viewpoint of inducing economic growth and improving efficiency, developing countries might prefer FDI in high-skill industries. Compared with their manufacturing counterparts, foreign affiliates in the services sector constitute, on average, relatively high-skill operations. In fact, the data may well understate host-country skill levels relative to those of parent firms because the price of skilled labour is typically lower in host developing countries than in the home country, the United States. Thus, unlike R & D and unlike physical capital in manufacturing (discussed below), the skills required for the production of services do not tend to be centralized in parent companies, but rather seem to be spread to host-country operations.

In sum, United States data suggest that, in service industries, employee skills are the main vehicle for the transfer of technology by TNCs to host countries. More specifically, it is in the area of training and the acquisition of soft technologies that service TNCs can make a contribution to host countries, rather than through the transfer of hard technology or the performance of R & D through foreign affiliates. This finding is consistent with the overall characteristic of service industries as being primarily soft-technology and not hard-technology oriented. However, while the level of R & D in service affiliates in developing countries is low, there is a possibility that the results of R & D by parents outside the services sector are channelled to host countries through service affiliates. The high skill levels in service-industry affiliates may partly reflect high expenditures on R & D by parent companies, and the corresponding complexity of the firms' products. But these high skill levels may also involve the transfer of technology developed without much formal R & D, such as management systems.

An important final caveat has to be made. The fact that service TNCs undertake little R & D does not necessarily mean that they do not *use* modern hard technologies. It merely means that service TNCs do not *produce* them. Instead, they buy and use these technologies. This is particularly notable for data-intensive industries, which increasingly rely on capital-intensive computer-communication systems, systems developed by others and acquired by service firms. In a sense, this is a question of linkages as well -- not from the services sector to the industrial sector as linkages are normally seen, but rather from the industrial sector to the services sector. Thus, even in terms of hard technologies, service TNCs need not have to forego the benefits of technological progress. Indeed, the growing use of data technologies, as well as the greater information-intensity of many service firms (as compared to manufacturing firms), most likely contribute to the high skill levels observed for service TNCs, precisely because the application of these technologies is skill-intensive.

C. Employment

In the preceding section, the *qualitative* impact on employment in foreign service affiliates brought about by the transfer of technology has been analysed. In this section, the *quantitative* impact of FDI in the services sector, namely, the extent to which it creates new jobs, is examined.

1. Implications of capital intensity

Contrary to a common impression, United States parent firms in the services sector have considerably higher physical capital intensity (measured by property, plant and equipment expenditures per employee) than those in the manufacturing sector (table V.1). The high physical capital intensity of service-industry parents is, however, concentrated in a few industries, particularly petroleum trade and services (mainly transportation), real estate, equipment rental, transportation and public utilities (annex table C.2). The other service industries are, with one exception, relatively labour-intensive, or at least of low physical capital intensity, as compared with manufacturing.

A somewhat different picture of capital inten-

sity is given by total assets (physical plus financial assets) per employee (table V.1). With only one exception, the service industries in which parents have higher physical capital intensity than parents in manufacturing industries are also the ones which have higher parent total assets per worker, but this version of capital intensity produces several additional capital intensive service industries in finance and wholesale trade. In fact, by this standard, the majority of service industries are more capital intensive at home than their manufacturing counterparts, and as a group they are twice as capital intensive.

Turning to the foreign service affiliates of United States service TNCs, the data show that, on the average, affiliates are less physical-capital-intensive than their parent firms (annex tables C.2-C.3). But the average hides substantial differences among individual service industries. In some cases, affiliates were much less capital-intensive than their parents within the same industries (for example, equipment rental, transportation, communications and public utilities, petroleum wholesale trade), but there were also many cases (involving some 12 service industries) of higher or more or less equal capital intensity of affiliates compared with their parents. The bulk of the difference between parent and affiliate capital intensities in service industries is the result of differences in industry mix: the affiliates are more concentrated in industries with low capital assets per worker.

If foreign service affiliates are compared to foreign manufacturing affiliates, the former are, on average, more capital-intensive than the latter, especially when capital intensity is measured by assets per employee (table V.1).[2] The capital-intensive service affiliates were mostly in the same industries as their parent companies, namely, petroleum-related services, equipment rental, computer services, real estate, finance, professional services, utilities, transportation and communication.

Several conclusions can be inferred from these data:

- It would be a mistake to view FDI in services as being confined to labour-intensive activities only. Foreign affiliates in a number of service industries are relatively capital-intensive, even when compared to their parent firms and especially when compared to foreign manufacturing affiliates. To the extent that, on the average, foreign service affiliates are more capital-intensive than foreign manufacturing affiliates, the former are normally not as important a source for the direct creation of employment as are the latter.
- The fact that foreign service affiliates (in contrast to foreign manufacturing affiliates) are not consistently less physical-capital-intensive than parents in each industry -- indeed, are often more capital-intensive -- suggests that there is less room in these industries than in manufacturing for adjusting factor proportions. In other words, service TNCs are less able to take advantage of lower wages outside their home countries than their manufacturing counterparts. This, one would expect, affects their propensity to create jobs (at least low-skill jobs) in host countries.

The underlying reason for the lower ability of foreign service affiliates to take advantage of lower labour costs is that service firms have fewer opportunities than industrial firms to split up the production process into labour-intensive and capital-intensive segments. Industrial firms can unbundle the production process and move labour-intensive activities to developing countries to take advantage of lower labour costs. Service firms normally cannot do that [3] because most services cannot be traded, but rather have to be produced where and when they are consumed. As a result, foreign affiliates tend to reproduce abroad the factor proportions used in home countries, including the skill, R & D and capital-intensity levels of their parent firms. In short, the production structure of foreign service affiliates is more likely to be similar to that of their parent companies than is the case with manufacturing affiliates. And because most services FDI is in such

2 A surprising feature of the latter measure of capital intensity is its high value for affiliates in developing countries. This is probably because this measure includes financial assets attributed to financial affiliates located in a few financial centres and used by many TNCs to carry out their financial transactions. In other words, some of the FDI movements in the financial sector are purely paper transactions, shifting the nominal ownership of financial assets to developing countries. These assets obviously inflate this measure for the developing countries as a group, although it is difficult to say to what extent.

3 In some services, however, it is possible to split the production process and move labour-intensive segments to developing countries. The shift of data-entry operations to developing countries is an example.

capital-intensive services as trade- and finance-related services, it would not be expected to create as much employment as the more labour-intensive manufacturing affiliates. The data in the following section throw some light on this matter.[4]

2. *Volume of employment*

As was noted in chapter I (see box I.1), when the importance of the services sector in FDI is measured by the number of employees, service affiliates weigh much less than when measured by any other variable. Table V.3 shows that this holds not only for the United States, but also for the Federal Republic of Germany and Switzerland. In the first two countries, the services sector measured by the stock of FDI had attained between 40 and 50 per cent by the mid-1980s; by number of employees, it accounted for only one quarter of employment of all foreign affiliates. Clearly, the same amount of FDI dollars creates fewer jobs when it is invested in service affiliates than when it is invested in manufacturing affiliates.

Data for United States outward investment in 1982 indicate that, on average, 2.3 jobs were created for every $100,000 invested in services; in manufacturing, the coefficient was 5.3. Ratios in individual service industries varied, however, from 0.5 in finance to 5.7 in business and other services. Data for inward stock in 1980 revealed a somewhat different picture. The coefficient for services was the same, but for manufacturing it was much lower (3.6). More importantly, the coefficients for individual services were different from those in outward FDI: for finance, it was 2.1; and for business and other services, only 1.8. This is probably so, because of a different industry mix or because foreign affiliates in the United States in these industries are more capital-intensive than those of United States affiliates abroad. In any event, services FDI does not appear to create as much employment per dollar of FDI as manufacturing FDI.

The absolute number of jobs in foreign service affiliates was about 2.5 million during the mid-1980s for TNCs based in the United States, the Federal Republic of Germany and Switzerland combined (table V.3). In the case of the United States, over 70 per cent of these jobs were in developed countries. Reflecting the composition of the stock of FDI, the leading employers among service industries were trade- (with more than half of all jobs) and finance-related services (table V.4). Since the three countries together account for 50 per cent of FDI, the total number of jobs in foreign service affiliates of all foreign investors is probably about 5 million -- a fraction of the approximately 2 billion economically active population in the world. Thus, although employees in foreign service affiliates are, on the average, well trained, the job-creating potential of these affiliates is more limited than that of manufacturing affiliates.

It should be noted that this observation does not deal with the actual impact of services FDI on employment. That impact (as all impacts) depends on what would have happened had the investment not been made and, more specifically, whether local firms would have filled the gap. As regards the comparison with manufacturing FDI, it may well be that local service firms are less likely to undertake investments made by TNCs than local manufacturing firms, among other reasons because a good part of this investment (especially trade- and finance-related FDI) has strong international links. If this were to be true, the net relative direct employment effect of services FDI could be greater than that of manufacturing FDI.

Table V.3. Service employment abroad by transnational corporations based in selected home countries, mid-1980s

Country	*Employment abroad*		
	Total (Thousands)	*Share of services (Percentage)*	*Share of services in total FDI*
United States (1982) [a]	6 814	27	43
Germany, Federal Republic of (1985)	1 785	25	52
Switzerland (1986) [b]	691	18	28

Source: UNCTC, based on official national sources.

a Excluding finance, insurance and real estate in the Netherlands Antilles.
b On the basis of the industry of the parent companies.

[4] There is another aspect of the capital-intensity of certain service industries that, although unrelated to the employment aspect considered here, deserves mentioning. Since physical capital is relatively mobile, FDI in capital-intensive industries can be a way in which capital-poor countries can economize on that scarce resource.

Table V.4. The composition of services employment of foreign affiliates of selected home countries, mid-1980s
(Thousands of employees and percentage)

	United States (1982)		Federal Republic of Germany (1985)	
Industry	*Number*	*Percentage*	*Number*	*Percentage*
All service industries	**1 875**	**100**	**455**	**100**
Trade	944	50	304	67
Business and other services	319	17	43 [a]	10
Banking	159	9	12	3
Petroleum services	145	8	..	..
Finance, insurance, real estate	130	7	28	6
Transport, communication, utilities	90	5	29	6
Construction	88	5	39	9

Source: UNCTC, based on official sources.

a Other services.

D. Role in trade

In the light of the precarious balance-of-payments situation of many developing countries, the extent to which foreign service affiliates contribute to exports is of particular interest. In discussing the impact of service TNCs on the balance of payments, a distinction has to be made between direct and indirect impact. Most important among potential positive contributions are: inflows of foreign capital to initiate and/or expand projects; earnings from exports, if the foreign affiliate is export-oriented or contributes to exports; and savings of foreign exchange from import substitution. Burdens for the host country's balance of payments include remittances of profits, fees and royalties to the parent company; direct and indirect imports of goods and services; and transfers of salaries by expatriate employees from the host country. The net foreign exchange effect depends on a number of factors which determine the size of foreign exchange credits and debits associated with each foreign affiliate over its entire life. Although difficult to ascertain, indirect effects can be quite important among them. One concerns the possibility that the import of certain services at one point in time can lead to the export of goods at a later point in time (see box V.3). Another concerns the extent to which the availability of certain services increases the competitiveness of exports and the efficiency of imports.

While some of the factors affecting the size of foreign exchange spendings and earnings of service affiliates are similar to those affecting foreign manufacturing or mining affiliates, there are some which are specific to (or more relevant for) service industries. For instance, foreign banks may be more likely to repatriate not only profits (as all TNCs do), but also excess capital rather than making it available for loans to local firms, particularly in developing countries. In the case of insurance firms, premium revenues are often invested outside the developing country, unless government regulations restrict the outflow of such capital. In general, financial TNCs are likely to participate actively in international capital markets, with capital flowing to the most lucrative markets, wherever they may be. And the use of non-equity forms reduces potential capital inflows. But the most important aspect which distinguishes service TNCs from other TNCs (apart from the indirect effects discussed below) concerns their impact on the balance of payments resulting from the non-tradability of certain services. This basic characteristic implies a much lower export propensity and import-substitution capacity for service TNCs than for industrial TNCs. At the same time, it is the principal purpose of certain affiliates, especially trading affiliates (chapter I), to export goods and services from host countries (buying agents), or to import them from the home country (for example, marketing affiliates). Other things being equal, however, one would expect the overall balance-of-payments impact of service TNCs on host countries to be less favourable than that of other TNCs.

Data bearing on these questions are very limited, although efforts are under way to improve the situation (see box V.4). United States data, however, throw some light on at least the export pattern of service TNCs, as compared to manufacturing TNCs. In the subsequent examination, two situations are distinguished: one is the analysis of total exports of service TNCs, that is, exports by service parents and their affiliates and of service affiliates in general (many of which are owned by industrial parent firms), regardless of whether those exports consist of goods or services; the second concerns exports of services only.

Box V.3 Service imports, good exports

When oil was discovered in Norway during the late 1960s, oil drilling by transnational oil companies and, thus the import of oil-drilling services, increased rapidly. By the mid-1970s, however, Norway had become a net exporter of oil, and oil exports far offset the value of the imported oil-drilling services.

Norway: import of oil-drilling services and export of petroleum, 1973-1986
(Millions of kroner and percentage)

Item	*1973*	*1974*	*1975*	*1976*	*1977*	*1978*	*1979*
1. Import of oil-drilling services	21	100	150	120	268	284	331
2. Export of petroleum and natural gas	238	490	3 443	6 660	8 111	13 598	2 1993
1 as a percentage of 2	8.8	20.4	4.3	1.8	3.3	2.0	1.5

Item	*1980*	*1981*	*1982*	*1983*	*1984*	*1985**	*1986**
1. Import of oil-drilling services	267	251	272	514	609	643	601
2. Export of petroleum and natural gas	41 399	48 087	53 472	63 844	78 328	85 380	53 077
1 as a percentage of 2	0.6	0.5	0.5	0.8	0.7	0.7	1.1

Source: Government of Norway, *Statistik Sentralbyra Statistical Yearbook of Norway, 1974-1987* (Oslo).

* Preliminary estimates.

1. Overall exports

Data on United States parent firms in service industries confirm that, on average, service TNCs are less export-oriented (6 per cent of sales are exported) than those in manufacturing (11 per cent of sales are exported), even though a share of these exports may consist of goods (see table V.1). There are exceptions, however. Companies in petroleum trade and services, wholesale trade, equipment rental, engineering, architectural services and construction, all make close to 10 per cent or more of their sales to foreigners. But it must be kept in mind that these trade figures include both goods and services, and that, in the case of wholesale trade (including petroleum wholesale trade), goods constitute almost their entire sales.

Another characteristic of service industries seems to be that parent firms do far less of their trade with their foreign affiliates than do parent firms in manufacturing. Only about 20 per cent of their exports are to foreign affiliates, as compared with about 40 per cent for manufacturing. Thus, FDI seems to be much less important as a conduit for the exports of service-industry parent firms than for the exports of parent firms in other industries.

The weak connection between FDI and trade is evident on the import side as well: imports from affiliates are less than 1 per cent of service industry sales, as compared with 3 per cent in manufacturing (see table V.1 and annex table C.4). One reason for the low volume of trade with foreign affiliates in service industries could be that service TNCs are less transnationalized than manufacturing firms. Thus, some of the implications associated with a positive relationship between FDI and trade usually found for manufacturing industries are likely to be of little importance, if they exist at all, for service

Box V.4 Improving trade data

*Scarcity of data has traditionally been a major handicap for policy-oriented analysis of the role of TNCs in foreign trade, not least in service trade. To some extent, however, countries with a computerized customs data base can now overcome this problem by employing a new approach referred to as trade-data analysis at enterprise level, which has been developed by the International Trade Centre, UNCTAD/GATT. This approach can be employed in all countries where customs data from export and import declarations are fed into a computerized trade-data base, including the names or codes of exporting and importing companies. Such computerized trade-data bases exist in a growing number of countries.**

This approach permits an analysis of the trade performance of individual companies, or groups or types of companies, such as TNCs. It is basically a rearrangement of customs statistics by products, markets and companies. It sheds light on the value, quantity, unit value and the number of imports for each product and each market.

Although there are many practical problems involved, trade-data analysis provides data to address policy issues concerning the role of TNCs in foreign trade, such as:

- *What have been the contributions of TNCs to foreign trade in terms of value, product and market diversification?*
- *Is there any evidence that TNCs have in general obtained lower export prices than local companies?*
- *Are TNCs complementary or competitive in relation to local companies? Has there been any displacement of local companies by TNCs in the area of trade?*
- *Have fiscal export incentives for TNCs been successful in the sense that TNCs with incentives have performed better than other companies?*
- *What has been the trade performance of specific sub-groups of TNCs, such as wholly-owned foreign affiliates, transnational trading companies, foreign-affiliated hotels, TNCs in export-processing zones, TNCs in mining etc.?*

This approach yields the best results if different types of companies are compared, such as TNCs, local companies, state trading companies, small and medium-size exporters etc. It is, therefore, of particular interest to institutions such as boards of investment, ministries of trade, central banks and trade promotion organizations.

* *See International Trade Centre UNCTAD GATT, "Trade-data analysis at enterprise level for trade promotion a practical guide on how to prepare and analyse export and import data from customs sources at enterprise level" (ITC 007 B1 87-1).*

industries. For instance, services FDI does not necessarily booster home-country exports, or host-country imports.

Unlike their parent firms, foreign affiliates owned by service-industry parents are quite export-oriented. While a third or so of sales by affiliates of manufacturing parents are exports, more than 40 per cent of the sales of affiliates of service industry parents are exported (table V.1 and annex table C.5). Export ratios are particularly high for affiliates of parents in wholesale trade (including petroleum trade) and equipment rental. Affiliates of parents in motion pictures, engineering and architectural services, and financial services also have high export ratios, matching those of manufacturing affiliates. On the other hand, less than 10 per cent of the output of advertising, health services, construction, retail trade and other services is being exported. The relatively high export ratios for some finance-related industries may be misleading: since a good part of the assets of financial service affiliates may be located outside the host country, exports to the United States by financial affiliates of United States parent firms in financial centres may in fact originate in the United

Table V.5. Sales of services and goods by United States majority-owned non-bank service and goods affiliates, by industry of affiliate, 1982
(Billions of dollars)

Industry of affiliate	*Total*	*Local sales*	*Export from host countries*			*Export propensity (Percentage)*
			Total	*To the United States*	*To other countries*	
A. Total sales (goods and services)	**730.2**	**477.9**	**252.3**	**76.8**	**175.5**	**34.5**
Sales by service affiliates	**311.1**	**198.9**	**112.1**	..	..	**36.0**
Wholesale trade	113.6	66.2	47.4	5.5	41.9	41.7
Retail trade	15.7	15.4	0.3	-	0.3	1.9
Petroleum-related services	124.0	73.6	50.4	11.3 [a]	36.8[a]	40.6
Finance	9.8	4.5	5.4	3.6	1.8	55.0
Insurance	13.4	9.9	3.5	1.8	1.7	26.2
Real estate	0.2	..	..	..	..	..
Holding companies	0.1	..	..	..	..	..
Construction	12.2	11.1	1.1	-	1.1	9.0
Transport, communication and public utilities	4.2	3.8	0.4	0.3	0.1	9.5
Business and others	17.9	14.4	3.6	1.0	2.6	20.1
Sales by industrial affiliates	**419.0**	**278.8**	**140.2**	..	..	**33.4**
Manufacturing	271.1	179.3	91.8	26.2	65.6	33.8
Petroleum	142.3	98.4	43.9	..	..	30.8
Other	5.6	1.1	4.5	1.8	2.7	80.3
B. Sales of goods (total)	**663.9** [b]	**426.5**	**237.4**	**69.3**	**168.1**	**35.7**
Sales by service affiliates	**235.2** [c]	**137.1**	**98.1**	..	..	**41.7**
Wholesale trade	109.9	62.8	47.1	5.4	41.7	42.8
Retail trade	..	..	..	..	0.3	..
Petroleum-related services	112.3	62.5	49.8	..	..	44.3
Finance	-	..	..	..	..	..
Insurance	-	-	-	-	-	..
Real estate	-	..	..	..	..	..
Holding companies	0.05	0.04	0.01	-	0.01	20.0
Construction	11.7	10.6	1.1	-	1.0	9.4
Transport, communication and public utilities	-	..	..	..	..	..
Business and others	1.3	1.2	0.1	..	..	7.6
Sales by industrial affiliates	**411.7**	**273.6**	**138.1**	..	..	**33.5**
Manufacturing	265.9	175.0	90.9	25.8	65.1	34.2
Petroleum	141.6	97.9	43.7	..	..	30.9
Others [d]	4.2	0.7	3.5	1.2	2.3	83.3
C. Sales of services (total)	**66.3**[bcd]	**51.1**[cd]	**15.0**[cd]	..	..	**22.6**
Sales by service affiliates	**60.1** [c]	**46.3** [c]	**13.8** [c]	..	..	**22.9**
Wholesale trade	3.7	3.4	0.3	0.1	0.2	8.1
Retail trade	..	..	..	..	..	..
Petroleum-related services	11.7	11.1	0.6	..	..	5.1
Finance	9.8	4.5	5.3	3.6	1.7	54.1
Insurance	13.4	9.9	3.5	1.8	1.7	26.1
Real estate	0.2	..	..	..	..	..
Holding companies	0.05	..	..	..	..	..
Construction	0.5	0.4	0.1	-	0.1	20.0
Transport, communication and public utilities	4.2	3.8	0.4	0.3	0.1	9.5
Business and others	16.6	13.2	3.4	..	..	20.5
Sales by industrial affiliates	**6.0**	**4.8**	**1.2**	..	..	**20.0**
Manufacturing	5.2	4.2	1.0	0.5	0.5	19.2
Petroleum	0.7	0.5	0.2	..	..	28.6
Others [d]	0.1	0.1	-	-	-	--

Source: United States, Department of Commerce, *US Direct Investment Abroad: 1982 Benchmark Survey Data* (Washington, Department of Commerce, 1985).

a Components do not add up to the totals because figures for some of them are not disclosed.
b Components do not add up to the total because figures for retail trade and agriculture are not disclosed.
c Excluding retail trade.
d Only mining, excluding agriculture.

States and never involve any factors of production located in the host country.

Another important characteristic of the trade of foreign affiliates of United States service parents is that it is less oriented to the home country, and particularly to parent companies, than is the trade of affiliates of manufacturing companies. Thus, while foreign affiliates of manufacturing firms often appear to be part of an integrated structure of supply for the parent companies' world-wide demand, the foreign affiliates of service firms seem to be much more free-standing, neither supplying their parents nor being supplied by them to any great degree.

The above discussion dealt with *export propensities,* that is, with shares of exports in total sales of service parents and their affiliates; it did not deal with the *volume* of exports which, from the point of view of the host country, may be more important: high export propensities do not necessarily mean high volumes of export earnings; conversely low export propensities are not necessarily associated with low export earnings in absolute terms. This is illustrated in table V.5, which contains data for local sales and exports of foreign affiliates to host countries. In distinction to the earlier discussion, the table documents trade effects of FDI in services rather than merely TNCs in services, since affiliates are classified by their own industry and not by that of their parents. This distinction does not necessarily affect all export propensities, since most service affiliates belong to service parents, just as most industrial affiliates belong to industrial parents. The only major exceptions are trading and financial affiliates, since these are frequently established by industrial parents as well (see chapter II). While data based on the industry affiliation of affiliates produce a lower (but not much lower) export propensity for trading affiliates, they increase that of financial affiliates by a factor of two. This shows that financial affiliates of industrial parents serve the financial needs of a corporate system in all countries (not infrequently from a tax haven).

Financial affiliates and affiliates in other industries (mainly mining) illustrate best the difference between high export ratios and low export volumes: while they both have high export propensities (54 per cent and 80 per cent, respectively), they accounted for only 3.5 per cent of the total exports of all foreign affiliates. These total exports amounted to $252 billion in 1982, of which service affiliates accounted for 44 per cent ($112 billion). The bulk of exports of service affiliates came, however, from wholesale trading affiliates: 87 per cent, or $98 billion. All the remaining service affiliates do not count much in terms of export volume from host countries, even though they exhibit high export propensities. But these high export propensities do not translate into high export volumes. These figures underline a substantial difference between wholesale trading affiliates and all other service affiliates (including retail-trading affiliates) concerning their role in the exports of host countries.

The primary function of trading affiliates is to support trade in goods (that is, exports *and* imports to a host country) of their trading or industrial parents. In fact, almost all their exports from host countries are goods (99 per cent) and, as a rule, they export goods produced by host-country firms including by firms in the manufacturing sector. In these cases, their role in promoting host-country exports is more an indirect than a direct one. (Other indirect effects are discussed below.) In other words, trading affiliates do not directly produce exportable goods or services; they merely help to export goods and services that are already available in the host economy. This is an important function, particularly in many developing countries, but it is different from the production function. In addition, foreign trading affiliates are important because a comparative advantage in producing a good does not necessarily imply a comparative advantage in marketing it. The relatively high skill requirements of service industries relative to manufacturing industries in developing countries (mentioned earlier) suggest the possibility that developing countries may go through a period when they enjoy a comparative advantage in certain types of manufacturing but not in the marketing of the same products. As examples of some developing countries (Republic of Korea) show, this does, however, change; with time, these countries may not only successfully produce but also market their exportable goods and services.

2. *Export of services*

Unlike trading affiliates, non-trading service affiliates produce and export mainly services, which

Table V.6. Sales of services by United States majority-owned non-bank affiliates, by developed and developing countries, 1982
(Billions of dollars)

Sales	All countries	Developed market economies	Developing countries	
			All	Excluding financial centres in the Caribbean [a]
Total	**66.3** [b]	**39.6**	**18.6**	**9.4**
Local sales	51.5 [b]	33.1	10.2	8.6
Exports	**14.8**	**6.5**	**8.3**	**0.7**
To the United States	7.4	2.4	5.0	0.3
To other countries	7.4	4.1	3.3	0.4

Source: Same as table V.5.

a Bahamas, Bermuda, Jamaica, Netherland Antilles, Trinidad and Tobago, United Kingdom islands.
b Totals and local sales of developed market economies and developing countries do not add up for "all countries", because a part of the sales ($8.1 billion) took place in international territories.

explains why they are relatively unimportant as exporters from host countries. Many services are non-tradable and, in addition, the volume of traded services is low compared to the volume of traded goods; for world trade as a whole, the ratio is 1 to 5. As the data in table V.5 show, the total volume of services sold by foreign affiliates ($66 billion) is considerably lower than the total volume of goods sold by foreign affiliates ($664 billion). Ninety per cent of total services sales and exports of services are effected by services affiliates, the balance by industrial affiliates. Of the services sold, only one fifth ($15 billion) are exported, half of them to the United States (see table V.6), the home country. Petroleum-related services are especially locally oriented, with over 90 per cent of sales in the host country. Among service exports, financial services and insurance alone (banking services are not included) account for 60 per cent, with two thirds of all financial services being sold to the home country. Business and other services account for 23 per cent of exports.

A disaggregation of the total sales of services by groups of countries shows a much higher export propensity for developing (45 per cent) than for developed countries (16 per cent) (table V.6). The figures for developing countries are, however, distorted by the activities of financial affiliates in a few offshore Caribbean centres, which are overwhelmingly export oriented. The exclusion of these countries restores the normal, expected pattern for all other developing countries. Service activities of foreign affiliates are predominantly locally oriented and only a small part (9 per cent) of services produced is exported (see table V.6). While most of the local sales of services in developing countries are in non-financial centres (84 per cent), almost all exports of services from developing countries originate in these centres (92 per cent). The latter fact may also explain why the industry pattern of service exports is dominated by financial services.

A final observation is in order. While the volume of services exported by foreign affiliates is quite low compared to that of goods, it may be quite high compared to the volume of services exported by their parent corporations and their home country. In 1982, the United States exported private non-factor services in the amount of $32 billion, of which roughly $17 billion were sold by TNCs headquartered in the United States. This compares to $15 billion exported by foreign service affiliates in the same year, half of which went to third markets, half to the United States. In the light of this, the services export performance of foreign affiliates appears quite respectable, especially if it is taken into account that the foreign affiliates figure does not include exports by foreign banking affiliates, minority-owned affiliates and non-equity forms.

3. *Indirect effects*

As in the case of trading affiliates, non-trading service affiliates can indirectly affect exports as well. Little evidence is available on the indirect export effects of service activities, but a study of linkages in Puerto Rico is suggestive (Weisskoff and Wolff, 1977, pp. 607-628). It found that business services, while exporting directly only something under 20 per cent of their output in 1963, were a major indirect exporter among the 26 Puerto Rican industries studied: over 40 per cent of the output of business services was exported directly or indirectly. This placed business services as having the second highest export propensity. Furthermore, it was found that the relative importance of business services as an indirect exporter increased significantly between 1948 and 1963, during the industrial transformation of Puerto Rico. This suggests that business services become more important in exporting at later stages of development.

E. Linkages

One important aspect of the impact of FDI in service industries is the extent to which such operations are linked to other sectors of the economy. There are two sides to this linkage. One is on the demand side: purchases by service-industry firms from firms in other industries. The other is on the supply side: sales by service industries to other industries. The first gives some indication of how investment in service industries, to the extent that it adds to the output of these industries, would raise the demand for the products and services of other industries. The second indicates how investment in service industries, if it adds to output in these industries, would increase the supply of services, and which purchasing industries are the likely beneficiaries.

The types of input-output or inter-industry relations tables which would be ideal for an analysis of this question are not available. [5] However, if the linkage characteristics of service industries are universal, some indications of them can be derived from United States input-output tables.

Taking direct sales only, about 40 per cent of the total output of a group of selected services consisted of intermediate products, that is, it was sold to other industries in the United States, or within the same industry (annex table C.6). Of the intermediate output, 30 per cent went to manufacturing industries. That is an indication that the low direct export propensities of these service industries -- barely more than 2 per cent on average -- do not reveal the extent to which service-industry output was incorporated into exports, since some of the service-industry output was exported indirectly, via manufacturing industries or primary-product industries.

Another linkage between service industries and other sectors is through the service industries' purchases of inputs from them (table V.7). The finance industry, a major service-industry foreign investor, is relatively self-sufficient on the input side, and what it does purchase is almost entirely from other service industries. At the other extreme are industries such as eating and drinking places and auto repairs and services, which purchase more from manufacturing industries than they pay to employees (annex table C.6). The links of service industries to manufacturing are mainly to such industries as food and kindred products, petroleum refining, construction maintenance and repairs, metal products, office equipment and electrical equipment.

Aside from these formal interconnections among industries, the most important impact of services on other sectors may be the effect of the quality of services and, perhaps less important, the price of services on the efficiency of other industries. [6]

There is little quantitative evidence on the quality of services in different countries, but there is some on prices. Although services in general tend to be cheap relative to output as a whole in developing countries (Bhagwati, 1984, pp. 279-286; Kravis and Lipsey, 1983), more technologically advanced services are expensive. For example, in 17 developing countries covered in one study, the prices of all services relative to United States prices were about 60 per cent of the prices of all goods and services, but the prices of three more technically demanding service industries were as much as two and a half times that level, even though all three services are often subsidized (see annex table C.7). The implication is that these services are perhaps produced inefficiently. All three are industries in which FDI is almost negligible; it is conceivable that such investment could increase the efficiency of these services.

The high prices of technically demanding services, and possibly an accompanying low quality, are among the principal reasons why the consumption of these services is low in these countries. While the per capita GDP of these

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5 The information needed to establish linkages would be data distinguishing foreign-owned from domestically-owned service industry firms in each industry in each developing country, giving the composition, by industry, of sales and purchases. Such information could be provided by input-output or interindustry relations tables, if they distinguished between domestic and foreign firms and if they were available for most developing countries. Neither of these conditions is met by the available data. Without an extensive study, one can only draw some inferences from the scanty data that are available. The input-output data do have some unique advantages. They show sales and purchases to and from a uniform list of other industries. Most important, they provide information not only on the distribution of direct purchases, but also on the distribution of indirect purchases, showing the cumulative total of the demands that their purchases give rise to through the effects on supplying industries.

6 This is expressed, for example, in the following quote: "Good telecoms are now recognized in every post-industrial country as being as important to commerce as good roads and railways once were. Falling behind in telecoms means falling behind in just about everything else, though what matters is not so much the cost of telecom services -- which for most industries still account for only 1-2 per cent of operating expenses -- as their quality and range." "Rewiring the world", *The Economist*, 17 October 1987.

Table V.7. United States: sources of inputs to service industries, 1977
(Percentage of total input)

Industry	*Manu-facturing*	*Total intermediate inputs*
Transport and warehousing	17.8	43.5
Communication, except TV and radio	10.2	20.0
Wholesale and retail trade	4.5	28.5
Finance and insurance	2.9	39.4
Real estate and rental	8.2	21.0
Hotels, personal and repair service, except auto repair service	14.2	35.9
Business services	6.2	26.4
Eating and drinking places	35.3	55.6
Auto repair and service	26.1	47.2

Source: Annex table C.6.

countries is about 20 per cent of that of the United States, and their per capita consumption of all services is 17 per cent, that of electricity is 5 per cent, air transport 2 per cent, and telephone and telegraph service 1 per cent of United States consumption (annex table C.7). There seems to be substantial room for future growth in these industries if productivity in them can be raised.

The three services mentioned above are all important inputs into other industries, and the competitiveness of the latter (including many in the manufacturing and mining sectors) must suffer from the inefficiency of the services they use. The same may be true for financial services, although the effects may be less obvious. The function of an efficient system of financial services is to pool risks and to redistribute them from those who do not wish to bear them to those who are willing to do so at a price. If the insurance industry is inefficient, entrepreneurs may be unwilling to undertake projects in which, for instance, a fire or an explosion could wipe out their capital because they have been unable to pool their risks with others. If the banking system is inefficient, local entrepreneurs may not be willing to export because hedging against exchange risk is too expensive or unobtainable. Even if local financial intermediaries are efficient in serving local needs, they may not be expert at tapping foreign sources of funds or at dealing with the world-wide needs of manufacturing or mining TNCs. For the most part, the defects of services industries have their impacts mainly on other sectors. If and where foreign firms are able to provide these services more efficiently than local firms, the host country's gains from their entry could be spread over a wide variety of industries.

F. Conclusions

Despite the concern in many developing countries about FDI in services and foreign control of service industries, very little is known about the extent to which TNCs participate in the production of services in these countries. The available data do not permit any detailed examination of this issue, particularly for specific service industries, or over time. There are some published data on value-added in non-financial service industries in a number of developing countries in 1982, but no data on value-added by TNCs. Very rough estimates of value-added by United States-based firms in a few developing countries and the implied shares of these firms in value-added in each country are shown in table V.9.

The general impression from these figures is that, although there has been a rise in the importance of FDI in the services sector, TNCs still play a relatively minor role in most non-financial service industries of most developing countries. In countries which are main recipients of United States FDI, the United States foreign affiliates' share of host country value-added in these industries appears to be very low (around 1 per cent). In the Middle East, however, this share can reach 30 per cent. Thus, compared to manufacturing industries, the participation of United States firms in the services production of developing countries is relatively limited.

These data hide, of course, the fact that, in specific service industries or certain sectors of the market (especially the internationally-oriented part of the market), TNCs can play an important role (see chapter II). In particular, foreign affiliates can occupy central positions in some modern parts of the services sector, such as accounting, advertising, insurance, hotels, car rentals, data communication and international banking. For example, a survey undertaken in 1984 of 10,700 firms in 44 countries showed that 61 per cent of those companies were audited by one of the world's 13 largest accounting firms. Or, foreign affiliates are the largest advertising agencies in 34 of the 53 countries for which data are available for 1986 (table V.8). In all but 11 of these countries, foreign majority- or

Table V.8. The role of foreign advertising agencies in host countries/territories, 1986

Country or territory	*Largest*	*2nd largest*	*3rd largest*	*4th largest*	*5th largest*
Developing countries/territories					
Argentina	MJ-US(5)	MJ-GBR(1)	DO	MJ-US(2)	MJ-US(3)
Brazil	DO(US11)	DO(GBR 1)	DO	MJ-US(2)	DO(US 15)
Chile	MJ-US(5)	MJ-US(2)	MN-US(3)	DO	MJ-US(7)
Colombia	MJ-US(12)	DO(US 5)	DO (US 3)	MJ-US(9)	MJ-GBR(1)
Costa Rica	DO(US 3)	MJ-US(2)	MJ-US(9)	MJ-US(4)	..
Dominican Republic	MJ-US(6)	MJ-US(2)	MJ-US(12)	..	MJ-US(9)
Ecuador	MN-US(5)	MJ-US(2)	DO(US 7)	MJ-US(9)	..
El Salvador	MN-US(4)	MJ-US(2)	..	..	..
Guatemala	MJ-US(2)	MN-US(4)	DO(US3)	MJ-US(9)	DO
Honduras	MJ-US(2)	MJ-US(4)	..	..	..
Hong Kong	MJ-US(7)	MJ-US(12)	MJ-GBR(1)	MJ-US(2)	MJ-US(3)
India	DO(US 5)	MN-GBR(1)	MN-US(2)	MN-US(7)	DO(US 3)
Indonesia	DO(US 2)	DO(GBR 1)	DO(US 5)	MN-US(8)	DO(US 3)
Jamaica	..	MJ-US(2)	MN-US(9)	..	..
Kenya	MJ-US(2)	MJ-US(7)	..	..	..
Kuwait	DO	..	..	..	..
Malaysia	MN-GBR(1)	MN-US(7)	MN-US(2)	MN-US(5)	MN-US(3)
Mexico	MJ-US(2)	DO	MJ-US(5)	DO	DO
Morocco	MJ-US(2)	..	..	..	..
Namibia	MJ-US(2)	..	..	..	..
Pakistan	DO(US 2)	DO	DO	DO	DO
Panama	DO(US 12)	MJ-US(2)	DO	..	..
Paraguay	MJ-US(5)	MJ-US(2)	..	..	..
Peru	MJ-US(5)	MJ-US(2)	MJ-US(11)	DO(US3)	..
Philippines	MJ-GBR(1)	MJ-US(2)	MJ-US(5)	DO(US 15)	DO(US3)
Singapore	MJ-US(2)	MJ-US(7)	MJ-GBR(1)	MJ-US(12)	JV(4)
Thailand	MJ-US(2)	MJ-US(7)	DO(GBR 1)	MJ-US(12)	MJ-US(5)
Trinidad and Tobago	MJ-US(2)	DO	MJ-GBR(1)	MN-US(9)	MN-US(14)
Uruguay	DO(US 5)	DO-US(3)	MJ-US(2)	MN-US(11)	..
Venezuela	MJ-US(5)	MN-US(7)	MJ-US(12)	DO	MJ-GBR(1)
Zambia	MJ-US(6)	..	..	..	..
Zimbabwe	DO(GBR1)	MN-US(6)	MJ-US(2)	..	..

minority-owned firms were a majority of the top five advertising agencies. In the insurance industry, foreign insurance affiliates account for more than half of all insurance firms in 16 countries and 20 per cent to 50 per cent in another 25 countries (table V.10).

Leaving the questions of magnitude and relative importance aside, there is a widespread impression that service industries consist largely of technologically stagnant, small-scale personal services based on unskilled labour working with little capital in ways that have not changed for many years. While there may be some such service industries, they are not the ones that have attracted FDI, or that have stimulated international discussions on trade and FDI in services.

The service industries that are of interest here are industries in which soft technology is important. In particular, some of them are heavy users of high-skill personnel. And since the skilled labour is located in host countries, and the skilled employees are almost all nationals of those countries, the likelihood of skill transmission to host-country enterprises is probably greater than in the case of hard technologies where the production of new techniques is much more centralized in parent companies. Thus, particularly with respect to skills, there is likely to be more transfer of technology relative to the amount of investment in service industries than in manufacturing. Probably to a greater degree than in manufacturing, foreign affiliates in service industries provide training

Box V.5 Dreamparks international

On 15 April 1983, a Disneyland theme park opened in Tokyo. It was built by Oriental Land Co. Ltd. (owned jointly by the Mitsui Real Estate Development Corporation and the Keisei Electric Railway) at a cost of $650 million. Oriental Land owns and operates the park under a licence and royalty agreement with Walt Disney Co. Walt Disney Co. supplies its name, trains employees and manufactures products required by the park and bought at cost by Oriental Land. Walt Disney Co. receives royalties on the revenue generated by the park: 10 per cent of the admission fees and 5 per cent of the revenues from restaurants and shops. During the first three years of operation, 30 million visitors passed through the theme park.

In 1985, Walt Disney Co. decided to build a Disneyland in Europe. A site near Paris was selected and an agreement was signed with the French authorities in March 1987. The firm's decision was facilitated by the Government's willingness to offer tax concessions (the value-added tax on entry fees was reduced from 18 to 7 per cent) and to accept the arbitration of the International Chamber of Commerce in any contract disputes. The Government won the use of French as the principal language of the park, a guarantee of $40 million from Disney if the project were abandoned and assurances that 60 per cent of the engineering work and 90 per cent of the materials would come from France or other members of the European Community.

Euro Disneyland, a $2 billion project, and its surrounding facilities, are expected to open in 1992. It is planned to include a Magic Kingdom (similar to those in Orlando, Florida, Anaheim, California, and Tokyo, Japan), a golf course, hotels, office buildings, restaurants and possibly conference facilities. The project will provide 20,000 temporary construction jobs and 30,000 permanent jobs. An estimated $1 billion annual revenues are expected from 10 million visitors -- $700 million from foreign visitors. The 4,600 acre site will be linked to Paris by a commuter train and a six-lane highway, to be built by the Government at a cost of $333 million.

Under the agreement, Disney will lead a consortium of investors to implement the project. Firms from the European Community will hold at least 50 per cent of the equity. Disney will receive royalties and management fees for its role as the operator of the various facilities.

Euro Disneyland may face competition from Music Corporation of America (MCA), which is considering building a theme park in Europe as well. Its park may include a studio-tour attraction (which would feature such universal film characters as ET, Frankenstein and King Kong), sound stages for movie and TV production, and resort facilities.

The United States theme-park market has grown by 10 per cent per annum since 1977, and growth in Western Europe may have been even faster. But there is some concern that the number of theme parks springing up will be more than the European market can support. In the growing competition, transnational brand names like Disney and MCA are well placed to win out over their local rivals.

do sell their services to non-residents of their countries and, therefore, are exporters in the balance-of-payments sense. Construction, on the other hand, figures prominently among the FDI of developing countries (chapter I), an indication that these countries can develop a comparative FDI advantage in certain industries. These service industries are, consequently, of more significance for the absorption of unskilled labour in developing countries, although the overall absorptive capacity of foreign service affiliates is almost negligible compared to the total labour force of these countries.

The most important impacts of FDI in services probably result from links with other industries. There is no statistical evidence that shows these links specifically for foreign-owned firms, but service industries do provide important inputs into

Table V.9. United States affiliates' share of value-added in non-financial service industries in selected developing countries, 1982[a]
(Percentage)

Country or territory	*Share*
Africa	
Nigeria	1.1
Egypt	0.6
Asia	
Philippines	12.0
Singapore	7.0
Hong Kong	2.6
Indonesia	0.9
Thailand	0.8
Middle East	
Saudi Arabia	30.3
United Arab Emirates	19.7
Israel	15.4
Western Hemisphere	
Bahamas	38.0
Venezuela	6.3
Panama	4.6
Jamaica	4.5
Argentina	1.6
Colombia	1.2
Chile	0.9
Brazil	0.8
Mexico	0.5

Sources: Based on United States, Department of Commerce *US Direct Investment Abroad: 1982, op. cit.*, and United Nations, *Statistical Yearbook*, various years.

a Value-added of United States affiliates consists of net income, employee compensation and foreign income taxation as reported by the source. Depreciation in non-bank affiliates and interest payments by all affiliates are rough estimates.

Table V.10. The role of foreign insurance companies in host countries, 1 January 1985

Number of foreign insurance affiliates as percentage of total number of insurance firms (Percentage)	*Number of countries or territories*	*Country/territory*
Less than 5	19	Brazil, Chile, Colombia, Egypt, El Salvador, Finland, Ghana, Iceland, Indonesia, Kenya, Mexico, Morocco, Nigeria, South Africa, Sudan, Taiwan Province, Tunisia, United States, Venezuela.
5-20	11	Argentina, Guatemala, Paraguay, Peru, Philippines, Republic of Korea, Spain, Sweden, Thailand, Trinidad and Tobago United Kingdom
20-50	25	Austria, Belgium, Bolivia, Canada, Denmark, Dominican Republic, Ecuador, France, Gabon, Germany, Federal Republic of, Honduras, Israel, Italy, Japan, Jordan, Lebanon, Malaysia, Mauritius, Netherlands, Norway, Pakistan, Panama, Sierra Leone, Switzerland, Turkey.
Over 50	16	Australia, Cameroon, Côte d'Ivoire, Cyprus, Greece, Hong Kong, Ireland, Liberia, Luxembourg, Malawi, New Zealand, Portugal, Senegal, Singapore, Uruguay, Zimbabwe.

Source: *Sigma*, No. 11/12, November 1985.

goods industries and influence the degree of efficiency at which these operate, and the degree to which they can export their products. Business-service industries, for example, export little of their products directly, but their indirect exports, incorporated in the export of goods, could make them a leading export industry.

The channels through which service industries affect the performance of other sectors include the prices at which essential services are provided and the quality of the services. High prices for service inputs may inhibit goods production, and especially goods production for export, which may require more service input, such as advertising or financial services, than production for the domestic market. But low-quality services may have even more significant negative effects. It may, for example, discourage domestic or foreign producers from expanding production destined for export. Care should therefore be taken that the regulation of prices in service industries (a more common practice than in manufacturing) does not produce negative quality effects which would outweigh any positive effects of low prices.

Another possible impact of services FDI on host countries is that service TNCs could use their superior technology and managerial skills to provide consumers and businesses in host countries with better or cheaper services than those available to them from local suppliers. TNCs might supply services not available without their presence, such as advanced data processing or transmission services, or advanced telecommunications or facsimile services. TNCs might also supply services

that are available from local companies (for instance, in banking and insurance), but they might supply them at lower prices or higher quality. In both cases, the result could be that (other things being equal) service prices, adjusted for quality, would be lower. On the other hand, if there are local firms supplying a service, the entry of TNCs may result in the destruction of some of these firms, and improvements in the technical level of the remaining ones.

It should also be noted that the impact of service TNCs goes beyond the economic sphere since, intended or not, capital investments are normally accompanied by socio-cultural investments. Suffice it to say that service TNCs, perhaps more so than their industrial counterparts, can introduce, demonstrate and promote values, attitudes and behavioural patterns in the countries in which they are active and thus influence their culture and especially consumption patterns. As will be discussed in the next chapter, this is one of the principal reasons for which FDI in such industries as mass media and advertising is regulated in many developed and developing countries. The importance of this issue is illustrated by the negotiations for the $2 billion Euro Disneyland project near Paris, concluded in 1987. One of the important concessions the Government of France won was the use of French as the principal language of the amusement park (see box V.5).

Finally, perhaps the most important fact determining the role of services FDI in development is that foreign service affiliates are generally more complete, more free-standing and more like parent firms than are foreign manufacturing affiliates. Manufacturing TNCs are able to build international affiliate networks within which an international intra-firm division of labour can allocate capital-intensive, technology-intensive and skill-intensive operations to the parent corporation, while labour-intensive (and particularly unskilled labour-intensive) operations can be allocated to foreign affiliates, especially those in developing countries; the high level of trade between manufacturing parents and their affiliates is an indication of this ability.

While service TNCs are also building international affiliate networks, they do not find their operations as divisible as manufacturing firms, to match the factor proportions of sub-processes with the factor prices of host countries. The principal reason is the low tradability of many services, that is, the fact that the intangible and non-storable nature of most of them requires that their production and consumption must take place at the same place and at the same time. Indeed, intra-firm trade in the services sector is considerably lower than in the manufacturing sector; in other words, the type of trade is low that would be high in industries that can split their production processes among locations. Except in a few cases, service firms cannot detatch low-skill operations and shift them to developing countries, while keeping high-skill operations at home. As a result, foreign affiliates in many service industries tend to be more similar to their parent firms in terms of physical capital intensity and skill intensity. Thus, the lower tradability of many services may mean that a given level of FDI in services represents more transfer of skills and physical capital than the same level of FDI in manufacturing. [7] In sum, foreign service affiliates tend to be more complete and more free-standing than foreign manufacturing affiliates.

This discussion of the role of services FDI in development has touched on a limited number of potential impacts only. Given the scarcity of data, its conclusions are tentative. Considerably more research is needed to understand more fully the nature and magnitude of the impact of service TNCs. Progress in understanding is particularly difficult because many of the economic and other impacts are of an indirect sort and, therefore, difficult to isolate and measure. But a better understanding of the role of services FDI in development is of crucial importance because the growth of such investment increasingly raises the questions of how it can best contribute to development and how the policies of host countries can maximize this contribution.

[7] One implication of this is that, in services more than in manufacturing, the pattern of FDI may be governed by ownership-specific advantages combined with location-specific advantages that are mainly demand- rather than supply-determined. The location-specific advantages in services may more frequently be the size of a market rather than factor abundance and factor prices.

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VI. THE POLICY AND REGULATORY FRAMEWORK

A. Introduction

The preceding chapters dealt with the growth of FDI and TNCs in services, the reasons for this growth and the impact of FDI in this sector on host countries. Repeated references were made to the role of the policy and regulatory framework as an important parameter influencing FDI in services. The present chapter focuses on this framework as it affects the growth and pattern of FDI in services and the activities of TNCs. One of the most striking features of the services sector is its high degree of regulation as compared to that of other economic activities, manufacturing in particular. Regulatory policies are widespread both in developed and developing countries, although the emphasis on various types of policies tends to be different in those two groups of countries.

Most developed market economies have relied heavily on economic regulations aimed at specific service activities. Despite recent moves towards deregulation and privatization, such patterns are still predominant today. Many economic regulations limiting market entry and disciplining pricing behaviour of enterprises are not specifically related to FDI, and they apply in a non-discriminatory manner. Nevertheless, they circumscribe the scope for foreign participation and, in the case of public or publicly authorized private monopolies, sometimes act as absolute barriers to TNC activity. In addition, a number of developed market economies apply specific and often very finely-tuned regulations to FDI. As demonstrated by a recent survey, most of the remaining obstacles to entry and establishment in developed market economies, as well as exceptions to national treatment, are related to service industries (OECD, 1987a).

A lack of suitably trained personnel and administrative capacity often makes it difficult for developing countries to adopt finely-tuned policies towards the development of the services sector. As a result, economic regulations of service industries in many developing countries tend to be of a broader nature and, in certain areas (like banking, insurance and transport), public enterprises are often predominant. Partly for the same reason, regulations specifically addressed to FDI tend to be more severe, closing, in certain instances, entire ranges of activities to foreign involvement, or demanding a high degree of local ownership from those enterprises which are admitted.

This pattern is still predominant today, but it is changing rapidly. In the developed countries in particular, a clear trend towards deregulation and the liberalization of FDI in services can be observed. Deregulation, that is, the removal of controls directly dealing with the management of service activities at the domestic level, and liberalization of FDI are closely interrelated, but they are not the same. If unchecked by accompanying policy measures, deregulation or privatization of domestic enterprises can simply result in the substitution of public monopolies by private monopolies, and the activity concerned will remain closed to entry by new competitors. Deregulated activities can remain sheltered by barriers to trade and investment. On the other hand, liberalization of FDI does not imply that regulatory safeguards or legal frameworks for service activities will (or should) be dismantled. In certain cases (and in particular in developing countries), the strengthening of such mechanisms as prudential controls of financial services may even be a prerequisite to successful liberalization.

The present chapter first reviews the general reasons for the regulation of FDI in services and the pattern that regulation has taken in both developed and developing countries. [1] As noted in chapter I, regulations have been one of the principal reasons for the limited role that TNCs play in certain service activities. In the present chapter, the focus is on FDI policies, but measures of a more general nature significantly affecting investment decisions by TNCs in services are also taken into account. It is not intended to provide a comprehensive description of all the relevant instruments and measures. Rather, some examples are given from both developed and developing countries to illustrate the alternative approaches which have been adopted and their underlying reasons and effects. In the remainder of the chapter, pressures for change are discussed, some of the consequences of liberalization are reviewed briefly and possible approaches towards improving regulatory policies consistent with development objectives are outlined.

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1 This review of regulatory policies is based on the following sources: UNCTC 1986a, 1983, 1982a, 1981, 1980, 1979, OECD 1987b, 1984a,b, 1983a, Peat, Marwick and Mitchell 1986, and United States, 1986a,b.

B. Reasons for regulatory control

There are various reasons why the regulation of services is so stringent and prevalent, the main one being the crucial role played by services in the process and pattern of economic development. As spelled out in the introduction above, this role includes the provision of basic infrastructure for wealth-creating activities, providing various interlinkages, having strategic significance for economic development, being a source of structural adjustment and having a marked socio-cultural impact. Clearly, the performance of the services sector is crucial to economic growth in general. Moreover, it is a role which is often undertaken under conditions of (public or private) monopoly and in markets which are imperfect in promoting allocative efficiency. In particular, those services which involve the use of networks (public utilities, telecommunications) are often characterized by natural monopolies, that is, situations in which a few or even a single producer can exploit the economies of scope or scale.

Apart from these basic reasons, there are a number of other broad concerns which motivate regulations and policies affecting FDI in services in developed and developing countries alike. These include:

- Public order and national security;
- Cultural identity;
- Consumer protection;
- Prudential supervision;
- Balance-of-payments considerations;
- Natural monopolies;
- Development objectives, including the promotion of indigenous industries.

Public order and national security interests are universally recognized as inherent limitations to international obligations in the area of trade and investment, as demonstrated, for instance, by the references made in GATT instruments, bilateral treaties, the OECD Codes of Liberalisation of Capital Movements and Invisible Transactions and regional co-operative instruments, such as the treaty establishing the European Community. The interpretation of such clauses is generally left to the contracting parties, subject to international surveillance and control of abuse. Considerations of public order and security are relevant to services and are often invoked in such areas as health (as part of immigration controls or to check cross-border movements in tourism) and air and maritime transport (to justify policies maintaining national-flag carriers). In the area of data services (data processing, data bases, software, telecommunication services), dependence on computers and data bases located abroad is sometimes considered a risk to national security. From the perspective of a small country, the additional fear of becoming dependent on foreign supplies of essential services is often voiced.

Reasons of cultural identity are advanced in favour of limiting foreign presence in areas such as educational services and media, and particularly in broadcasting, television and films. Advertising is another area where this reason is given some prominence, particularly in developing countries. Finally, cultural considerations, sometimes coupled with environmental concerns, are considered compelling in the area of tourism, where large numbers of foreign tourists may impose significant strains on national endowments and the socio-cultural environment. [2]

Consumer protection is particularly important because, owing to the intangible nature of many services, the quality of most of them can only be determined at the time of consumption, whether it is because the production and consumption of a service takes place at the same time (for example, surgery), or because the consumption of a service is deferred until later, while payments are already taking place (for example, insurance). Hence, regulations are required to ensure that the provision of services meets certain standards. A related matter is the need to assure the universal availability of certain services (for example, telephone services) under equitable conditions, as are requirements of prudential supervision of sensitive activities. Prudential supervision in the interest of ensuring the safety and stability of national financial systems is particularly important for banking and other financial services, because corporate bankruptcies (the ultimate market discipline) entail social and economic costs, which are not confined to the corporations that have failed. These considerations usually apply to domestic and foreign firms alike.

Balance-of-payments considerations frequently

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2 On socio-cultural impact, see Aschar, 1985.

reflect the concerns of developing countries *vis-à-vis* TNCs, but serious balance-of-payments difficulties are also recognized as a cause for temporary derogations from, for instance, the obligations of developed market economies under the OECD liberalization codes. Such reasons have been used to limit profit remittances and capital repatriation or to impose restrictions on the imports of intermediate services. For instance, in the area of tourism and hotel services, developing countries are concerned that pre-payment of charges, the use of customer vouchers and inter-company settlements of debt outside the country (rather than in the tourist-receiving country) may reduce the amount of foreign exchange accruing to the host country. Import leakage is a related concern in view of the high import content of many tourist related services. Balance-of-payments considerations have also prompted a number of developing countries to place restrictions on FDI in the insurance sector. A concern here is that foreign branches and subsidiaries might invest premium income outside the host country.

In such service industries as telecommunications, air and maritime transport and utilities, investment requirements and production economics may dictate an oligopolistic or even monopolistic market structure in a number of countries. Furthermore, national security considerations can become important if the supply of some of those services shifts from domestic to foreign firms. Consequently, many countries prefer to have those services supplied by national public or private monopolies. As will be discussed below, however, this does not necessarily mean that the scope of a given monopoly cannot be subject to review and, in particular, that activities which have outgrown the status of natural monopolies may not be subjected to competition.

Development objectives, and the desire to control the principal means by which those objectives are achieved, are probably the strongest driving force for FDI regulations in developing countries, although infant-industry arguments are sometimes also used by developed market economies. Given the importance of services in providing the infrastructure for many economic activities and interlinkages (especially through producer services providing intermediate inputs) with other industries, countries encourage (and protect) the growth of domestic companies which can provide services considered to be particularly important for their economies. Added to this is the perception that such services as telecommunications and financial services are strategically important for a country's future growth and development and, therefore, need to remain under domestic control. And countries which have an export potential in some services naturally wish to develop it, especially when these same services are an important source of structural adjustment. In each case, policies are influenced by the desire to encourage the development of indigenous firms, and measures may be taken which may involve at least temporary restrictions on the participation by TNCs. A related concern is that TNCs, by following global corporate strategies which do not pay sufficient regard to host country needs, may undermine (or render less effective) domestic monetary or economic policies pursued by host countries.

On the other hand, foreign direct investment, if properly channelled and utilized, can play an important developmental role. Precisely because of the importance of services, and especially when they provide intermediate inputs, the exclusion of foreign competition through FDI may result in higher costs for those inputs or perpetuate outdated technology and management patterns. High-cost and inefficient producer services (for example, in banking and insurance) affect the viability and competitiveness of other industries (including manufacturing activities) and thus may be damaging to the overall development strategies of the countries concerned (Bhagwati, 1987, pp. 549-570). Furthermore, regulations often face contradictory situations. Tourism, for instance, is a source of foreign exchange, but, at the same time, may have certain undesirable socio-cultural effects. Similarly, a modern telecommunication system linking a country internationally is becoming increasingly indispensable for attracting FDI, but the needs of economic development may require the creation of broad-based basic services. Such conflicting policy demands have to be resolved in the light of a country's overall needs and priorities.

A final observation is in order. Foreign direct investment in a number of service industries does not appear to be highly regulated. However, although there may be few specific provisions concerning FDI, general regulations concerning, for instance, professional services or government-

procurement policies (for example, in engineering and consulting) may, *de facto,* influence the level and form of foreign participation. At the same time, a number of new services (for instance, data processing and software services) have not yet attracted the attention of regulators and, therefore, such policy instruments as have been devised are usually piece-meal rather than comprehensive.

C. Main features of regulations and policies affecting foreign direct investment in services

Service industries, like other industries, are subject to general investment controls and policies of host countries. In addition, specific and generally more stringent regulations are applied to service industries in many countries. The following discussion focuses on the latter, as general investment régimes are dealt with elsewhere in this survey

1. Controls of entry, establishment and ownership

In addition to authorization procedures applying to all sectors, specific limitations to establishment apply in many service industries. These regulations vary in their degree of severity and, depending on the industry concerned, range from the prohibition of entry to relatively open and flexible régimes.

Broadcasting and other media services are, mainly for strategic and cultural reasons, subject to substantial limitations of foreign ownership in the majority of developed and developing countries. In some countries, FDI is prohibited. Others apply limitations to foreign equity participation in domestic enterprises, ranging from 5 per cent in the case of New Zealand to 25 per cent in the case of Japan. In many countries (for example, Canada, Finland and Trinidad and Tobago), broadcasting is a public monopoly, which in itself excludes FDI. But, even in this area, policies are changing in some countries; France, for example, has recently opened its television broadcasting to foreign investors.

Air transport is also subject to demanding restrictions designed to protect domestic carriers. International air transport is governed by a network of bilateral agreements providing for route allocation and capacity-sharing between national carriers. Those agreements are often supplemented by pooling arrangements between the airlines concerned, which limit or exclude any remaining scope for competition. These restrictions of international air transport services are reinforced by stringent investment régimes protecting national-flag carriers. Foreign direct investment is either excluded or limited to minority holdings. Even in countries like the United States and the United Kingdom, which have deregulated their domestic air transport market, competition by foreign carriers on domestic routes is excluded, and the so-called fifth freedom right (that is, the right of a foreign carrier to transport passengers from the country concerned to a third country) is either denied or only granted on a reciprocal basis.

International maritime transport is regulated by shipping conferences, that is, private arrangements between carriers which are either condoned or encouraged by Governments. In most countries, coastal trade and cabotage services are limited to vessels flying the national flag; and the ownership of such vessels by foreign enterprises is in many countries limited or prohibited. Nevertheless, a few countries like Australia, the Federal Republic of Germany and the United Kingdom allow foreign ownership on condition that the enterprise is locally incorporated.

Telecommunication services are operated by public or private monopolies in many countries. However, technological changes have prompted reforms of regulatory régimes, exposing at least some value-added services (for example, the transmission of enhanced computerized data through leased lines) to competition. The deregulation of network operations has not yet resulted in any significant increase in competition in the countries which have taken these measures. In the United States, AT&T has maintained a dominant market share in long-distance communications after deregulation, but the situation may change when the local Bell companies, which have recently been authorized to provide value-added services, are also allowed to enter the long-distance market. In the United Kingdom, only one additional service provider was licensed after the privatization of British Telecom, and further licences are not envisaged in the near future. Foreign direct investment in private or privatized telecommunication companies is limited, if it is allowed at all. In the case of British Telecom, foreign ownership may not exceed 10 per cent, and a 20 per cent limitation applies to the Communications Satellite Corporation in the United States. In Japan, the partial privatization of NTT was part of a wider package

of deregulation which has allowed foreign enterprises to enter this market (see box VI.1).

In the case of other data services, several developing countries have introduced measures to promote the development of domestic industries (UNCTC, 1982b, 1983; Sauvant, 1986a). Brazil, for instance, requires as a rule all data processing to be undertaken in the country, and normally insists that data bases be located in the country as well. And India, through a combination of performance requirements and joint ventures, has developed an indigenous software industry with growing export value (see box VI.2).

In the area of banking and other financial services, the situation ranges from complete liberalization to the exclusion of FDI. Among developed market economies, no country excludes FDI as a matter of principle, and restrictions have been substantially relaxed in the course of recent years (OECD, 1984a). However, several countries have retained discretionary powers to refuse authorization of investment proposals considered contrary to the national interest. Acquisitions remain, however, stringently controlled and are subject to anti-trust scrutiny which, although applied on a non-discriminatory basis, can result in significant delays or modifications of proposals by foreign investors (table VI.1). In a few countries like Sweden, the acquisition of participating interests in domestic banks is not possible, and in other countries, ownership limitations apply, ranging from 10 to 51 per cent, with the possibility of exceptions being granted on a case-by-case basis. In Canada, the market share of foreign banks is limited to 16 per cent of the total domestic assets of banks. Restrictions on foreign establishments in securities markets are rather exceptional, but significant obstacles to inward investment can result from the asymmetry of domestic regulatory systems. In some countries, lead management of bond issues by foreign controlled institutions is either restricted or admitted only on a reciprocal basis. Secondary market operations are generally more restricted; in some countries, they must be carried out by independent brokers, who can only obtain a license if they are citizens of the country concerned. In addition, limitations on foreign membership in stock exchanges and professional associations apply in certain countries.

In developing countries, the prohibition of FDI in banking has become the exception, although many countries are still reluctant to allow the entry of new foreign banks. Countries which have liberalized their entry conditions in recent years include the Republic of Korea, Thailand and, to a more limited extent, India. As in developed countries, the acquisition of domestic banks by foreign banks is subject to strong constraints. Similarly, limitations on foreign ownership are still normal as banking is seen as a strategic economic activity. In Brazil, for instance, foreign banks are limited to minority participation in non-banking financial institutions and cannot acquire more than one third of the voting shares in investment banks, brokerage firms and leasing companies.

Branches of foreign banks are often treated as an entirely different category under various régimes. They are either forbidden, admitted on a reciprocal basis, or subject to prior authorization or special conditions concerning their operations, which are more stringent than those applying to foreign controlled subsidiaries. The reason for this differential treatment is the fact that, since branches are legally part of the parent company's operations, they are more difficult to supervise by local regulatory authorities than separately incorporated subsidiaries.

Investment controls in the insurance sector follow a pattern similar to that in banking and for essentially the same reasons, that is, the concern that foreign firms could dominate a key sector of the economy. No developed market economy completely prohibits FDI in the industry, but in several countries prior authorization has to be obtained, and limitations on the degree of foreign ownership are imposed (OECD, 1983a). Where they are allowed at all, branches are generally less welcome than subsidiaries and are sometimes subject to special deposit requirements designed to protect policy holders. In some countries, foreign insurance companies are required to establish separately incorporated entities if they wish to carry out operations. Until very recently, even some member States of the European Community required that insurance companies headquartered in other member countries establish themselves in the country of their clients. This regulation was, however, struck down by the European Court of Justice in 1986 (European Court of Justice, 1987, pp. 568-569). Regulations in many developing countries are even more extensive. Some countries, for example, India, Malaysia and the Republic of

Box VI.1 Japan's telecommunication policy

Japan's new telecommunication law, which entered into force on 1 April 1985, ended a public monopoly that had lasted for more than 100 years. The Nippon Telegraph and Telephone Corporation was privatized, and two categories of telecommunication business operations were created:

Type I

Carriers which own and operate their own telecommunication circuits. Foreign capital is permitted up to a ceiling of one third of total equity. Within that framework, Japan Communications Satellites Co. (jointly owned by C. Itoh Co., Mitsui Co. and Hughes Communications) and Space Communications Corp. (a joint venture of Mitsubishi Corp., Mitsubishi Electric Corp. and Ford Motor Co.) are scheduled to start operations in 1989.

Type II

Firms leasing circuits from Type I operators to provide communication services. There is no limit on FDI in this area. Value-added networks, which provide such enhanced services as computer data communication, and all international telecommunication services providers fall into this category. Kokusai Denshin Denwa (KDD) had a monopoly in the provision of overseas telecommunication services until 1987; in December 1987, however, International Telecom Japan Inc. and International Digital Communications Inc. (a consortium including C. Itoh Co., Toyota Motor Corp., Pacific Telesis Int. and Cable and Wireless) received licences to provide those services as well.

Once these new firms take up operations, the provision of telecommunication services in Japan will have been made subject to competition, including from firms headquartered outside the country.

Korea, effectively bar the entry of foreign-owned insurance companies. In others, such as Brazil, Colombia, Egypt, Indonesia, Kenya, Malaysia, Mexico, Morocco, Nigeria, Peru, the Philippines, Thailand, Venezuela and Zimbabwe, foreign investors are allowed to have limited equity participation only. Developing countries, too, prefer insurance subsidiaries to branches. For instance, the share of branches in the international business of insurance firms from France fell from 52 per cent in 1972 to 28 per cent in 1984 (Karailiev, 1986). Generally, barriers to inward investment in reinsurance tend to be less demanding in developing countries than those applied to direct insurance (UNCTC, 1980).

Finally, entry controls are also quite frequent in trade-related activities, and the right of establishment is typically very closely regulated. Moreover, regulations normally make no distinction between trade establishments which are geared towards distributing goods and services in the internal market and establishments which specialize in identifying foreign buyers of domestic goods and services to develop exports (for example, buying agents of transnational retail chains) or suppliers of foreign goods and services to obtain more competitive imports (for example, affiliates of general trading companies). By not differentiating between these two types of trade affiliates, host countries do not take into account the different impact each of them has and the different opportunities they offer.

2. *Nationality requirements*

Another type of government regulation frequently found in most of the service industries previously examined relates to the nationality and/or residence

Box VI.2 India's software policy

In 1970, India's Department of Electronics introduced a decree that authorized the import of computers to be used for the development of software. The condition attached to an authorization was that the imported equipment generated software exports equivalent to 200 per cent of the c.i.f. value of the equipment during the first five years of operation. In 1976, Indian citizens residing overseas were authorized to import equipment, provided they generated software exports equivalent to 100 per cent of the c.i.f. value of the import.

In 1981, new rules were adopted:

- *If the equipment is imported by an Indian company to produce software for export, it receives permission to use the computer after a certain period of time to produce software for local consumption. The company has to export software in an amount equivalent to 300 per cent of the c.i.f. value of the imported equipment, and export contracts signed by foreign customers having a value to at least 20 per cent of the c.i.f. value of the computer to be imported have to be attached to the import application.*
- *If the equipment is imported by an Indian company to produce software for export on the basis of a presigned contract, the company has to re-export the equipment once the project is finished. The project is not expected to last longer than two years, and the computer cannot be used to develop software for local consumption.*
- *If the equipment is imported by an Indian citizen residing abroad who decides to invest capital by purchasing a computer to establish an export-oriented software company in India, the applicant must export 200 per cent of the c.i.f. value of the imported computer.*

In all three cases, all applicants must use at least one third of the operating time of the imported equipment to develop software for export, with strict monitoring taking place to ensure compliance.

These rules were further amended in December 1986 in the following manner:

of members of the board of directors of an enterprise, its management and/or its employees. Although both foreign and domestic enterprises are subject to the same conditions, such nationality requirements may bear particularly heavily on the recruitment policies of foreign-controlled enterprises; in cases of a shortage of qualified local personnel in the host country, this may create a significant disincentive to investment. If kept within reasonable proportions, however, such requirements constitute only relatively minor obstacles to investment in service industries.

In certain areas, such as professional services, which are normally provided by individuals (for example, medical doctors) or partnerships (for example, accountancy firms), nationality requirements may act as a major barrier to inward direct investment (OECD, 1985a). In many countries, admission to the appropriate professional associations is a pre-condition to the practising of the activity, and such admission is often linked to citizenship. For instance, many states in the United States require that legal practitioners be nationals and residents before they can become members of the bar. Another obstacle frequently encountered is the absence of any mutual recognition of diplomas or professional qualifications obtained in foreign countries. In addition, foreign investors are sometimes not allowed to associate with local partners, whereas in other countries, they are required to do so. Finally, local affiliates may be prohibited from using the parent firm's internationally known name.

An organization setting up an export-oriented software company and requiring import of hardware and/or software of computer/computer-based systems for that purpose can meet its foreign exchange requirement for such import through any combination of the following options in any proportion: (a) from the Government of India; (b) through non-resident Indian participation; (c) with foreign exchange entitlement as a result of excess exports; (d) with foreign participation; and (e) through any other source permitted by the Reserve Bank of India.

The imports under this software export scheme have a software-export obligation equal to 250 per cent of foreign exchange used under option (a) plus 150 per cent of foreign exchange used under options (b)-(e), to be fulfilled in a four-year period. The export obligation for software developed for export on indigenous computers would be zero per cent.

The Indian Exim Bank also provides foreign exchange to software exporters for imports. The export obligation in this case is 350 per cent of foreign exchange used and must be fulfilled in a four-year period, starting from the date on which the customs clearance for the first import consignment is made. In such a case, a customs duty rebate of 50 per cent would be provided. The use of the imported computer system may be in any proportion of domestic and export activities.

India's software exports are recorded in the following table:

Software exports from India, 1975-1986
(Millions of dollars)

Year	*Value*
1975-1976	0.7
1977-1978	2.0
1979-1980	4.4
1981-1982	14
1984	22
1985	26
1986	38

Sources: O. Vikas, "Indigenous development of computer systems, peripherals and computer communication facilities", *Electronics, Information and Planning*, vol. 5 (August 1978), pp. 773-842; India, Engineering Export Promotion Council, "Report of EEPC computer software delegation to USA" (New Delhi, 1983), mimeo; and Indian Department of Electronics.

3. Policies bearing on the operations and competitive opportunities of foreign affiliates

Operations of foreign affiliates may be limited to specific subsectors of activities. Examples can be frequently found in banking and other financial services in developing countries (Germidis and Michalet, 1984). In certain countries, such as Brazil and India, restrictions exist on the extent to which foreign affiliates in the banking industry can add to their network of activities. In others, like Singapore, licences are granted only for offshore banking activities. Foreign-controlled banks may be excluded from taking deposits in local currencies (for example, Peru) or operating automatic teller machines (for example, Thailand), and ceilings may apply on local currency/foreign currency swap agreements (for example, Republic of Korea). Access to local financing is frequently prohibited or restricted in developing countries, while such restrictions are rather exceptional in developed market economies. Similarly, Brazil, Colombia, Kuwait, Mexico, Morocco, Singapore, Sri Lanka, Thailand, Tunisia, Venezuela and Zimbabwe do not permit the establishment of new subsidiaries and/or branches by foreign insurers.

Taxation policy is sometimes used to discourage nationals from placing insurance with foreign-controlled enterprises. For this purpose, certain countries levy a special tax on insurance policies placed with foreign-controlled insurers. Sometimes, policy-holders are not allowed to deduct premiums paid to foreign insurers from their taxes. Finally, claims received from insurance policies placed with foreign-controlled enterprises are taxed as income in some countries. In order to

Table VI.1 The regulatory framework in OECD countries for the acquisition of indigenous banks by foreign enterprises, early 1980s

Country	*Regulation*
Australia	Forbidden under current policy.
Austria	Licence required.
Belgium	Mergers are subject to prior authorization. The banking controlauthorities must be notified of any significant change in equity ownership.
Canada	For Schedule A banks, permitted up to 10 per cent of capital for each shareholder (maximum 25 per cent held by non-residents). Free for Schedule B banks.
Denmark	Permitted up to 30 per cent voting rights of share
Netherlands	Free up to 5 per cent of voting shares; higher participations subject to a declaration of non-objection.
New Zealand	Authorization required for foreign acquisition of 25 percentor more equity of New Zealand incorporated banks.
Norway	Free up to 10 per cent of share capital (but possibility of authorization up to 25 per cent).
Portugal	Forbidden by law in 1977, except participations in regional development companies and para-banking institutions. Prohibition eliminated by Decree Law No. 406 of 19 November 1983.
Spain	Subject to individual authorization.
Sweden	Forbidden.
Switzerland	Authorization required for majority participations.
Turkey	Authorization may be granted for participations between 10 and 49 per cent of share capital.
United Kingdom	Free up to 15 per cent of share capital; higher participations are subject to supervisory approval by the Bank of England and controlling majority participations may be subject to investigation.
United States	Free up to 5 per cent of voting shares; for higher participations, Federal regulatory approval is required.

Sources: OECD, *International Trade in Services: Banking* (Paris, OECD, 1984), p. 19; and national laws.

discourage the establishment of branches (rather than subsidiaries), branch operations by foreign banks are sometimes subject to discriminatory tax rates (for example, in Belgium, Finland, New Zealand and Sweden). In some developing countries, like India, such a tax régime also applies to foreign-controlled banking subsidiaries. Finally, a number of countries require that a proportion of insurance be placed with national reinsurance firms (for example, Algeria, Argentina, Brazil, Colombia, Egypt, India, Indonesia, Iraq, Kenya, Kuwait, Malaysia, Mexico, Morocco, Nigeria, Pakistan, Peru, the Philippines, the Republic of Korea, Singapore, the Sudan, Tunisia, Venezuel and Zimbabwe).

Government procurement is an area in which foreign affiliates are frequently given less favourable treatment than national firms. Such treatment can seriously handicap foreign investors in services like construction and engineering where, government

contracts are of key importance. Moreover, overseas aid programmes often exclude foreign affiliates from the provision of engineering services. Some countries, mostly developing countries, also impose a variety of restrictions in the area of advertising. for instance, on the use of foreign languages and materials in advertising and the remittance of fees, royalties and profits to the parent company (UNCTC, 1979; Boddewyn, 1985). Foreign affiliates also sometimes find it difficult to compete with domestic firms for the supply of telecommunication equipment and information services to government departments or public monopolies.

In summary, the nature of the regulatory framework concerning both entry and competitive opportunities in host countries explains the broad pattern of the distribution of FDI in services shown in chapter I. In industries such as broadcasting, telecommunications and transport, which are characterized by widespread restrictions on FDI, foreign participation is of minor importance. On the other hand, industries such as financial services, in which regulations have become more relaxed, have attracted the largest part of FDI in services. However, apart from regulations, and as chapter I has shown, many other factors come into play, which explain the geographical and industrial distribution of services. Therefore, it does not follow that the removal of regulations on FDI in services would necessarily lead to increased activity by TNCs. In addition, those services which are oriented towards local markets and customers (for example, retail banking and public services) would not, in many countries, be attractive enough to TNCs even in the absence of restrictions.

4. Economic regulations affecting the scope of foreign participation

As has already been mentioned, many service industries in developed and developing countries are, to some degree or other, subject to economic regulations which alter the output and resource allocation in these sectors. Such policies (even when they are operated in a non-discriminatory manner) may have a significant impact on FDI and the operations of TNCs. The following types of measures (which can be used as substitutes or in combination with each other) are particularly important[3] : public monopolies or the predominance of government-owned or controlled enterprises; private monopolies based on exclusive licences; formal regulations relating, *inter alia* , to market access, prices and forms of business activities; asymmetries between national regulatory régimes; and self-regulation through professional bodies recognized by Governments.

Public and private monopolies generally constitute absolute barriers to FDI in the activities concerned. However, there has been a tendency to define the scope of natural monopolies more narrowly in recent years. In addition, more efforts have been made to improve the quality of information available to regulators and to strengthen the incentives for regulated enterprises to be efficient. A certain degree of competition, which could also allow foreign participation, has also been introduced in some instances in the following ways:

- By allowing the competitive provision of certain services previously provided only by monopolies; thus, a few countries now permit the competitive supply of value-added telecommunication services, while the supply of basic services is reserved for a public or private monopoly;
- By encouraging more competition between the suppliers of different facilities for the same services, for example, satellite versus cable transmission; and
- By splitting up monopolies into regional producers of services; examples of this are the divestiture of AT&T in the United States and the creation of independent regional railroads in Japan.

In addition, competing bids by enterprises with foreign participation are considered when, for instance, franchising private service providers. Finally, it has to be taken into account that the need for natural monopolies depends on the industry and size of the country; it may make more sense for a small country like Switzerland to have a natural monopoly in the airline industry than for a large country like the United States.

In the case of services which are of central importance to economic development but in which natural monopolies do not necessarily exist (for example, road transport, banking and insurance), FDI can play a useful role as long as investors

3 For a detailed discussion, see the chapter on regulatory reforms in OECD, 1987c.

comply with regulatory requirements. However, as pointed out above, specific investment controls excluding or limiting foreign ownership are widespread in these areas.

An important implication of this fact is that the provision of certain services has been exempted from competition law in a number of countries (OECD, 1979, 1986a). This has allowed restrictive practices, such as rate fixing and market allocation, to the detriment of consumers, sometimes with the explicit or tacit approval of regulatory authorities. Since restrictive business practices do exist in the services sector, the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices specifies that the principles and rules for enterprises, including TNCs, apply to transactions in services as well as goods (UNCTAD, 1981). In addition, services have been included in the scope of application of most national restrictive practices control legislation, including articles 85 and 86 of the Treaty of Rome which forms the basis of the control of restrictive business practices by the Commission of the European Communities.[4] Thus, the Commission decided in 1984 to exempt the transnational interbank system from clearing uniform Eurocheques. The interbank system amounted to a cartel agreement, because the member banks agreed to common charges. The exemption was granted, however, taking into consideration the specific circumstances of the business in question. Particularly in the wake of recent policies of deregulation and liberalization, it may well be that restrictive business practices in service industries will come under increased scrutiny.

Asymmetries between national regulatory régimes also affect the scope of foreign participation and raise important issues for FDI which cannot be resolved by a mere reference to the principle of national treatment. This problem can be best illustrated by developments in the securities markets. The regulatory régimes in Canada, Japan and the United States impose a strict separation between banking and securities operations. The majority of countries, on the other hand, apply the principle of universal banking, according to which banks are allowed to engage in the full range of financial activities, including dealings on stock exchanges and secondary market operations. Thus, it follows that a bank from a universal banking country would have to cease engaging in securities or banking business (as the case may be) when entering the market of a country with a split banking/securities system. Conversely, a bank from a split system would be able to broaden its activities into securities or banking on a foreign market. The application of national treatment by countries having an institutional separation of banking and securities activities can, therefore, be an investment obstacle for institutions from universal banking countries. The issue has been partly resolved in Japan, where foreign banks have been allowed to open securities affiliates, provided that they are at least 50 per cent owned by the foreign bank. Taking advantage of this, leading Japanese banks, which use the London market for integrated financial operations to undertake activities they are not allowed to carry out in Tokyo, have recently opened representative offices of their London-based affiliates in Tokyo in an attempt to get access to local Japanese securities business. But change may be imminent here as well: in December 1987, a Committee on Securities and Finance, established by the Ministry of Finance of Japan, recommended the discontinuation of the strict separation between banking and securities operations in the near future.

Situations similar to those in the banking and securities industries are encountered in the insurance sector, where a number of countries require an institutional separation between companies engaging in different classes of insurance activities. This is perhaps a reason why, in a number of countries, the establishment of foreign insurance affiliates is still subject to reciprocal agreements.

Apart from government regulations, there are a number of other practices bearing on the organization of markets in services. In many countries, certain regulatory powers for particular professional services (especially concerning access to those services and forms of business activity in them) have been delegated to non-governmental professional bodies (OECD, 1985a). Understandably, the first priority of such bodies is to protect the interests of their members rather than those of the consumers of their products. Policies are often rooted in tradition and lack transparency, which partly explains the slow pace of regulatory reform

[4] Treaty establishing the European Economic Community, (United Nations, *Treaty Series*, vol. 294, no. 4300).

in these activities. In many cases, restrictive conditions are placed on foreigners possessing the same professional qualifications. On the other hand, professional bodies with an open membership may serve as an effective means of self-regulation, avoiding the necessity of government controls. It is interesting to note that the deregulation and internationalization of financial markets in the United Kingdom was accompanied in 1986 by the creation of the Securities Association which embraces both local and foreign financial institutions. This association was given large self-regulatory powers covering the rules for market operations and investor protection.

Another example of private regulatory activities in services are shipping conferences which are multinational or national associations of carriers. They have the purpose and/or effect of regulating rates, charges and conditions for the transportation of goods by these carriers. Certain aspects of these conferences relating to agreements on tariffs, time schedules, itineraries and sometimes cargo pooling have given rise to anti-trust concerns. An important aspect is the ability of conferences to prevent access to trade by outside companies, be they domestic or foreign owned. [5]

5. *Incentives and performance requirements*

Alongside regulatory mechanisms, *incentive programmes* , which comprise a variety of fiscal, financial and other measures designed to promote national economic development and to attract FDI, can be found in virtually every country. Occasionally, however, foreign affiliates may be excluded from participating in such programmes. This is the case in a number of countries which, for cultural reasons, provide assistance to domestic enterprises for the production and distribution of films and other audio-visual material (OECD, 1986b). Discriminatory aid programmes favouring indigenous companies are also applied in certain developed market economies such as Austria, Finland, New Zealand and Spain in the tourist sector. Another area in which foreign participation is not normally sought, although it is rarely formally excluded, is government funding for large research programmes in high technology industries aimed at increasing the international competitiveness of national industries. The European Community is grappling with this problem in respect to some of its high-technology programmes. Similarly, a few developing countries give high priority to the development of national data-service industries, and the incentive schemes launched for this purpose generally do not apply to foreign affiliates.

Other incentive programmes are designed to attract FDI. Although they generally apply across the board, they have mostly been geared to manufacturing TNCs. However, service activities have come to be included as well in recent years as a number of countries have sought to promote the establishment of foreign research laboratories, software industries and business services. Belgium, for example, is providing tax incentives for the establishment of "co-ordination centres" of TNCs. In order to qualify for tax exemptions, a centre's activities must be performed solely for the benefit of other companies within the group. These may be supply services (such as advertising and sales promotion), centralized financing transactions (such as invoicing, factoring, accounting and insurance), or services offered indirectly through intra-group transactions. In developing countries (for example, Barbados, Côte d'Ivoire, Jamaica, Jordan and Morocco), specific incentive programmes in tourism are widespread.

Performance requirements relate to the operation of foreign affiliates. They may be agreed at the time of the initial investment, or they may be a condition for the granting of financial or other incentives. They include a gamut of undertakings related to the proportion of inputs sourced locally, export performance, foreign currency earnings, employment and training of local personnel, technology transfer, and so on. To give a few examples concerning finance-related services:

- Requests for government approval or licences may be denied (or approval may be jeopardized) unless a company agrees to make specified new investment(s) in the country, even if the company is already well-established in that

5 In order to enable developing countries to obtain an equitable share in international maritime transport and to assist them in building up national merchant fleets, the United Nations adopted in 1974 the Convention on a Code of Conduct for Liner Conferences, which came into effect in October 1983. Competition issues raised by shipping conferences are addressed in work under way in the European Community; and, in early 1987, the OECD adopted a Council Recommendation defining, *inter alia*, desirable and undesirable practices of the conferences and covering the question of abuse of dominant positions both for conference participants and outsiders.

country;

- As a condition for access to local capital markets or acquisition of bank licences, a company may be required to provide loans to small-scale and/or agricultural enterprises;
- Permission to open a branch or an automatic teller machine may be made contingent upon a bank loaning more to a particular economic sector or geographic region; and
- In order to obtain access to the leased lines necessary to conduct business, a company may be required to process and/or store its data locally.

Performance requirements are generally designed to foster the integration of foreign affiliates into the local economy, to enhance their contribution to development objectives, and to minimize the perceived negative effects of global corporate strategies, such as intra-group transfers of income to profit centres outside the host country. In the area of such services as tourism and construction, performance requirements are most frequently used to ensure domestic sourcing of products and factor inputs.

Data on the incidence of performance requirements and investment incentives are only available for the United States for 1982 (table VI.2). They indicate that performance requirements are instituted relatively infrequently, but in developing countries more frequently than in developed ones. Incentives are considerably more frequent and are roughly equal in both groups of countries. What is important in the context of this chapter is that both performance requirements and incentives are more frequently used to influence FDI in manufacturing than in services. Employment requirements are faced by 5 per cent of service and 10 per cent of manufacturing affiliates. Otherwise, however, less than 1 per cent of service affiliates face either export, import, local content, transfer-of-technology or import/export balancing requirements, compared to 2 to 4 per cent of manufacturing affiliates. As regards investment incentives, tax concessions are accorded to 15 per cent of all service affiliates and 38 per cent of manufacturing affiliates. Only 3 to 5 per cent of service affiliates receive either tariff concessions, subsidies or other forms of incentives, compared to 13 to 26 per cent of manufacturing affiliates.

Although incentives and performance requirements are seen by host countries as playing an important role in economic development, a number of home countries have expressed concern about the extent to which such measures affect (and, more specifically, distort) the pattern of international trade and investment (OECD 1983b; Guisinger, 1985). These concerns, which, as can be seen from table VI.2, apply less to services than to manufacturing, are considered in the Uruguay Round of Multilateral Trade Negotiations under the heading of "trade-related investment measures". In the absence of an agreed international framework for FDI, however, host countries have a legitimate interest in ensuring the conformity of investment projects with their development objectives and priorities. Furthermore, many countries, in particular developing countries, may perceive conditional entry linked to certain performance requirements as the only feasible approach to the liberalization of FDI in services.

Host countries also have concerns regarding trade-related investment measures which affect the pattern of international trade and investment. Some measures taken by home countries, such as the extraterritorial application of certain trade directives to foreign affiliates or measures taken *vis-à-vis* such affiliates in the context of balance-of-payments difficulties, can distort trade patterns, even when they are considered to be necessary by home countries in the interest of broader policy objectives. Of greater concern to host countries, however, are measures taken by TNCs, however understandable these are from the viewpoint of those corporations. For instance, in the framework of their global strategies, TNCs may allocate markets to their various entities and discourage or even prohibit their foreign affiliates from competing with each other or with the parent company in certain export markets. Or, foreign affiliates may be required to procure parts of their supplies from other group entities rather than from independent sources, a practice which, for instance, can be found in certain hotel resort chains. Such practices may also distort patterns of trade, and they are one of the reasons why Governments of host countries sometimes impose performance requirements on TNC affiliates (Nogueira-Batista, 1987; Randhawa, 1987, pp. 163-173).

Table VI.2 Incidence of performance requirements and investment incentives among United States foreign affiliates, 1982
(Percentage)

	All industries		*All countries*	
	Developed market economies	*Developing countries*	*Manufacturing*	*Services*
Performance requirements				
Export requirements	1	3	4	0.3
Import requirements	0.5	3	3	0.7
Local content usage	0.6	2	2	0.4
Employment requirements	4	15	10	5
Transfer-of-technology requirements	2	..	..	..
Specific export/import ratio requirements	1	3	3	0.5
Investment incentives				
Tax concessions	25	26	38	15
Tariff concessions	7	16	17	3
Subsidies	18	9	26	5
Other	7	9	13	3

Source: United States, Department of Commerce, *1982 Benchmark Survey Data* (Washington, Government Printing Office, 1985).

D. Regulatory review and effects of policies

The previous paragraphs have described, in general terms, the patterns of regulation in service industries. They confirm that many service industries are highly regulated, both in developed and developing countries. But political perceptions of the value of regulation have changed. In addition, in a period of budgetary constraints, slow growth and high unemployment, countries have to reassess many of their economic policies to seek ways and means to utilize better their scarce resources. The services sector has not escaped this reassessment. Indeed, in some respects, pressures for change in this sector have been even more pronounced than in the goods sectors:

- Policy makers are slowly beginning to realize that services are not of a non-productive nature just because they (to quote Adam Smith) "perish in the very instance of their performance" (Smith, 1955, p. 143), but rather have the importance outlined earlier. Improving the efficiency of the services sector is therefore a powerful tool of economic policy. The centrally imposed efficiency of regulations as an appropriate means to achieve these ends has come under increasing scrutiny.
- Many developing countries, in addition to changing their macro-economic policies, have established better administrative capabilities, which allow them to take a more selective and finely-tuned approach to the regulation of services. This applies also to those service industries which are regarded as being central to economic growth.
- The deregulation policies of countries playing an important role in international trade and investment may exercise strong competitive pressures on world markets and induce similar deregulation in other countries. For instance, if a major financial market is deregulated, operations tend to shift to that market from others which are regulated. This happened in the case of the deregulation of the London financial market, which promoted liberalization measures in neighbouring financial centres. Deregulation of air transport in the United States has generated a reappraisal in other countries and regions of their own regulatory régimes and may, in the long run, lead to a restructuring of foreign airline industries; the takeover of British Caledonian by (the recently privatized) British Airways (in competition with Scandinavia's SAS) seems to point in this direction. Similar trends towards restructuring and internationalization can be observed in the telecommunication industry. All this would suggest that, in the years to

come, a new generation of service TNCs may emerge in areas which have been, until today, primarily the province of national enterprises.

- The new data services increase the tradability of certain services and, by so doing, create a world market for those services. This is of particular interest to countries that competitively produce (with domestic or foreign capital) services for export. In addition, the increased use of data services, and especially the fact that they increase the tradability of other services, may blunt some of the traditional regulations aimed at FDI. For instance, one reason for closely regulating the establishment of foreign banks is to maintain control over monetary flows. The possibilities created by transnational electronic transfer systems, such as SWIFT, or the international linking of automated teller machines may make some of these regulations less effective, if not obsolete.
- Service TNCs are now rapidly expanding internationally. Many service TNCs find this expansion inhibited by national restrictions; they desire, therefore, a stable, predictable and transparent international framework, which facilitates corporate internationalization. Since principal home countries consider the expansion of international service transactions as a source of growth and structural adjustment for their economies, they support this desire and are seeking the establishment of such a framework for trade in services within the Uruguay Round of Multilateral Trade Negotiations. Such a framework may generate pressures for a review of national regulatory policies. At the same time, efforts towards deregulation and liberalization are gaining momentum at the bilateral and regional level, a development which may itself affect the structure and pattern of regulatory frameworks.

All these factors suggest that the policy and regulatory framework for FDI in services will come under increasing scrutiny. However, it should not be assumed that such scrutiny will necessarily lead to more liberalization or deregulation. In some cases it is possible that activities which hitherto have not been regulated will become regulated, for instance, because of greater attention to prudential concerns. In others, the nature of the regulation may change; for example, general market regulatory policies may be replaced by more selective and finely tuned policies, aimed, *inter alia* , at channelling FDI into services considered as priority areas by host countries. Such a shift of emphasis would certainly be consistent with a heightened awareness of the importance of the services sector for development, together with better capabilities of Governments, and especially those of developing countries, to deal with TNCs wishing to invest in the services sector. Most certainly, Governments are now in a better position than they used to be to assess the costs and benefits of FDI in services and to determine the best mix of policies and regulations required to maximize the latter. A number of countries went through a similar process with manufacturing industries and may be able to learn from the experiences gained there. It is not inconceivable that the 1990s will be a decade of liberalization of FDI in services, just as the 1980s were a decade of liberalization of FDI in manufacturing.

Any review of regulation of FDI in services must address itself to a number of questions. What regulatory policies are most effective to achieve the objectives pursued? What is their significance in practical terms, that is, how important is it to regulate specific service activities? Can the type of regulations envisaged be effectively enforced and at what cost? Will the regulations serve the interests of the users of the services they aim to protect? What has been the effect of existing regulations on skill creation, employment, market structures, competition and innovation? Have they helped to improve the balance-of-payments situation? To what extent have they fostered (for instance, through interlinkages) the development of dynamic and internationally competitive indigenous enterprises? Can FDI in services be used to enhance or create comparative trading advantages for particular kinds of services and goods? [6] Have foreign service affiliates made use of comparative advantages for export opportunities? How far have new technologies, which have increased the tradability of services, rendered some regulations obsolete? Are there alternatives to existing measures which are more effective in reaching specific goals? How can developing countries best participate in interna-

6 For a discussion of comparative advantage, see Sapir, 1985, pp. 27-42; Hindley and Smith, 1984, pp. 369-389.

tional service markets?

Almost none of these questions has been the subject of systematic research. What studies have been conducted on the effects of a liberalization of FDI régimes in the services sector have drawn on the evidence of the effects of domestic regulatory changes. For instance, it has been demonstrated that considerable efficiency gains might be reaped in the airline industry in the United States (in which the Government has traditionally exercised far-reaching controls over prices and output) through greater exposure to market forces. Deregulation has led to reduced prices on a number of routes, created pressures to reduce costs and stimulated demand and output (Breyer, 1986; Morrison and Winston, 1986; OECD, 1985b). However, the intensified competition which followed led in some cases to a process of concentration through mergers and take-overs; at the same time, less profitable routes were discontinued and concentration increased on high-volume inter-city routes. The net long-term effects of deregulation are, therefore, not yet clear. Finally, it is not certain to what extent those effects can be generalized from the large United States market to smaller markets elsewhere.

A special issue in this context concerns the privatization of public enterprises. In many developed and developing countries, the performance of public sector service enterprises has led to the implementation of privatization programmes. Available evidence suggests that privatization, (if the incumbent enterprise is exposed to competition), can result in efficiency gains and assists in the process of economic adjustment (Hemming and Mansoor, 1988). Moreover, foreign private capital may contribute needed capital resources and managerial skills. On the other hand, it is possible that, in the absence of strong indigenous capital, privatized enterprises might fall into the hands of foreign corporations. The possibility of this happening has caused Governments to privatize by stages and to retain a certain amount of control through "golden shares" or blocking minorities. Indeed, many privatization programmes (for example, those recently undertaken in France) permit only limited foreign equity participation.

As regards services FDI, it is interesting to note that an increasing number of developing countries have begun to allow the participation of foreign TNCs in service industries previously closed to such investment. This does not mean that investment entry in those countries is now unrestricted. Rather, specific sub-sectors of activities, for example, investment or offshore banking (versus retail banking), offshore insurance (versus domestic insurance) and computer-assisted engineering (versus basic construction), are sometimes singled out as ones in which foreign investment has a contribution to make. At the same time, such a strategy needs to allow for the possibility of indigenous enterprises improving their competitive position over time and expanding into higher technology areas.

The presence of TNCs in service activities can create a more competitive environment, which brings costs and prices down and benefits consumers. However, a recent case study on partial liberalization of the insurance sector in the Republic of Korea has demonstrated that such effects are unlikely to occur if foreign affiliates, like their domestic counterparts, are protected by a highly sheltered and regulated environment (Cho, 1987). In such cases, the national interest could perhaps have been better served by deregulating the domestic market, that is, rendering domestic firms more efficient through competitive pressure before allowing entry by foreign enterprises.

The complementary role of foreign and domestic enterprises in the development of the services sector has been illustrated by a series of case studies on transnational banks and financial markets in developing countries (Germidis and Michalet, 1984). The studies found that a number of beneficial effects arose from the presence of foreign banks in the countries surveyed. For instance, financial flows (and, in particular, syndicated loans) were facilitated, because foreign affiliates were better acquainted with local economic conditions and could give better guidance to their parent companies on lending policies. The presence of foreign banks has also been one of the factors contributing to the modernization of the local banking system. For instance, in developing countries with large domestic markets open to foreign banks, the use of instruments such as credit cards and cheques has become more widespread, and local banks have been stimulated to embrace the latest computer technologies, with beneficial effects both to domestic and international operational efficiency. Concerns that foreign banks, if admitted, would end up dominating the banking

system of the host country were not confirmed. Indeed, foreign banks are not directly competitive with local banks in most instances; instead, they engage in such complementary and specialized activities as offshore banking operations, corporate financing of affiliates of TNCs or major local clients and foreign-currency transactions. Only in a few instances do foreign banks engage in retail banking of any significant scale. This complementary role of foreign banks is only partly due to regulatory constraints. The perception of such banks is that the cost of developing a network of local branches and agencies to attract depositors and to reach small and medium-sized borrowers is both highly costly and requires a great measure of local expertise.

It is, however, not clear to what extent these examples can be generalized. Given, on the one hand, the relatively weak services sector in many developing countries and, on the other, the competitive advantages and strengths of many TNCs, it could well be that the opening of domestic markets to service TNCs might lead to the domination of a number of industries (or parts thereof) by those corporations, a situation judged undesirable by a number of countries in the light of their objectives. In any event, concerns that a liberalization of FDI in services would favour foreign firms and inhibit the emergence of indigenous service industries (or threaten the existence of existing industries) are certainly real (Nogueira-Batista, 1987; Randhawa, 1987, pp. 163-173). The effects of liberalization may be different if strong indigenous enterprises exist. Then, an opening to FDI in services may lead to participation by these enterprises in the market, not its domination by them, with overall beneficial effects for the more efficient provision of services. What some countries seek, therefore, is a policy which leads to the balance between domestic and foreign firms which most efficiently advances their economic and other objectives.

The preceding discussion has been conducted from the perspective of developing countries as importers of services capital. Yet, firms from a number of developing countries are now themselves developing a comparative investment advantage in such service industries as engineering, construction, tourism, transport and certain data services. As a result, they are forming their own TNCs. By increasing the international competitiveness of these and other firms from developing countries, those countries stand to benefit from improved conditions for mobilizing financial resources, maintain a high level of human skills, integrate technological advances and relocate labour and managerial personnel -- especially if these conditions recognize the relatively underdeveloped status of the services sector in developing countries in general.

To return to the key questions posed earlier, ultimately each country has to determine for itself, and for each of its service industries, what policies are likely to be most effective in light of its chosen objectives. But the fact that a particular policy and regulatory framework with respect to FDI in services has been in place for some time is not, in itself, evidence that it has best served a country's objectives -- but neither does this necessarily suggest that this framework should be dismantled. Rather, the rapidly changing conditions in the international service economy (of which the growth of FDI in services is itself a part) have created a number of pressures which require a re-examination of the efficacy of existing regulatory mechanisms. The outcome of such a review is difficult to forecast; it could result in a strengthening of the regulatory framework, or in its liberalization, or in a modification of its form, extent and flexibility. Moreover, the result may vary from country to country and industry to industry, depending on the objectives pursued and the capabilities available, and taking into account the conditions of international competition during the late 1980s and the central role of services for economic development in general.

E. The international framework for foreign direct investment in services

In spite of the importance of FDI in services, no international framework for this activity exists. Furthermore, virtually all the instruments that do exist have been drawn up with a view to industrial FDI, although they apply to services FDI as well. Most important among these are treaties of friendship, commerce and navigation and bilateral investment treaties.

The treaties of friendship, commerce and navigation have been concluded by the United States. Many of them cover services, but they normally provide for a number of exceptions for certain types

of vital activities, such as air transport, banking (involving financing or depository functions), communications and shipping (United States, 1984). In addition, insurance and various professional services may be subject to special requirements according to some of those treaties.

The growing network of bilateral investment treaties concluded especially between developed and developing countries embraces all sectors. Those treaties generally extend national and most-favoured-nation treatment to foreign affiliates of the signatory States. However, they often contain a number of exceptions, most of which relate to service industries. Apart from several treaties concluded by the United States, they do not generally cover entry or establishment (UNCTC, 1988; OECD, 1985c), an issue of some debate in the context of international transactions in services. There are only few bilateral trade and co-operation agreements which specifically mention services, but their number may grow in the future. Most important among these are the United States-Israel and United States-Canada free trade agreements. The former, concluded in 1985, contains an annex dealing with services; it provides, among other things, for the right of commercial presence, that is, situations in which a presence within one country is necessary to facilitate the export of a service from another country. The latter, signed at the beginning of 1988, deals with services and provides, among other things, for national treatment, right of establishment, right of commercial presence, transparency and dispute settlement (box VI.3). The extent to which these principles may find their way into other international agreements remains to be seen.

At the regional level, the European Community has made substantial progress in the liberalization of service activities with a view to creating a unified internal market. The Treaty of Rome already contains, on a formal level, legally enforceable rights regarding the free establishment of enterprises and free trade in services. As to the practical implementation of those rights, a few examples indicate the progress that has been achieved. In the area of banking, for instance, efforts have been directed towards the strengthening of co-operation and the adoption of common procedures towards banking legislation between national supervisory authorities. Work is also in progress on the liberalization of capital movements which would affect the operating conditions not only of financial institutions indigenous to the European Community, but also of subsidiaries owned by residents outside the Community. In the area of insurance, eight directives have been adopted since the early 1960s, which embrace such issues as establishment, the placement of contracts with insurers from other member States and the harmonization of legal and supervisory conditions for different types of insurance. Recently, the European Community and Switzerland negotiated a bilateral agreement on the establishment of insurance companies. In the case of professional services, the provisions of the Treaty of Rome on the freedom of establishment and supply of services are to be given effect through a process of mutual recognition of professional diplomas and qualifications and the co-ordination of the statutory provisions governing entry to the professions. Finally, mention should be made of the decision to adopt a package of measures aimed at the gradual liberalization of air transport within the Community.

At the OECD level, the Code of Liberalisation of Capital Movements has been revised by a clarification, which explicitly provides for the right of establishment. [7] However, it does not cover establishments by physical persons, nor does the Code extend to industries closed to foreign as well as domestic investments. National treatment for foreign affiliates is provided for in the 1976 Declaration and Decisions on International Investment and Multinational Enterprises, as revised in 1979 and 1984. [8] The OECD Committee on International Investment and Multinational Enterprises has recently conducted an examination of the remaining exceptions to national treatment in the services sector and has recommended that these should be removed or reduced. At the same time, the OECD Code of Liberalisation of Current Invisible Operations is being updated; this work has already yielded results in such service industries as insurance, tourism, maritime transport and banking (OECD, 1986c). Reference should also be made to the conceptual framework for trade in services

[7] See the introduction in *OECD, 1987d.*

[8] Both instruments have been reprinted in *The CTC Reporter*, No. 18 (Autumn 1984), pp. 27-41.

Box VI.3 Canada-United States Free Trade Agreement: Services *

The Parties have agreed to complete a final text that lays out a set of disciplines covering a large number of service sectors. Principles of such a text would include national treatment, right of establishment, right of commercial presence, transparency and dispute settlement, all of which will apply to future laws and regulations governing trade and investment in covered sectors.

Both Parties have agreed to include in the services understanding a provision for addressing future rollbacks in various sectoral areas on a mutually agreed basis.

The Parties will include sectoral annexes clarifying the application of the disciplines to architecture, tourism, and enhanced telecommunications and computer services. Subject to appropriate legal review by both Parties, a similar annex would be included that clarifies the application of the Agreement to future laws and regulations in the transportation sectors.

Both Parties have established specific understandings regarding the temporary entry of business persons and recognized professions and persons engaged in sales or after-sales service functions.

The Parties have agreed to an annex that would ensure the further development of an open and competitive enhanced telecommunications and computer services market by incorporating the following principles:

(a) Non-discriminatory access to, and use of, the basic telecommunications transport services, including: the lease of local and long-distance telephone services; full period flat rate private-line service; dedicated inter-city voice channels; and public data services for the movement of information, including intracorporate communications; the sharing and reselling of basic telecommunications services; and the purchase or lease of terminal equipment;

(b) Maintenance of existing access for the provision of enhanced telecommunications services through the use of the telecommunications transport network and computer services within and across borders of both Parties;

(c) Assurance that enhanced service providers do not benefit from unreasonable cross subsidization or other anti-competitive practices from their related monopoly service providers. Appropriate safeguards, such as separate accounting records, sufficient structural separations and disclosure shall be put in place.

The understandings will govern computer services whether or not conveyed over the telecommunications transport network.

Enhanced telecommunications services are services which are more than basic telecommunications services as defined and classified by measures of the regulators of the Parties. Greater precision, including agreed-upon benchmarks, will be included in the definition.

* *Excerpt from "Preliminary transcript: Canada-U.S. Free Trade Agreement. Elements of the Agreement" (Ottawa, 1987), mimeo., pp. 12-14.*

developed by the OECD Trade Committee; it addresses, among other things, questions of market access, national treatment, regulations and service monopolies (OECD, 1987e).

On the part of developing countries, studies have been carried out on the possibilities of liberalizing services at the regional level. The recent Decision 220 of the Andean Group liberalizing the investment régime set up by Decision 24 has opened-up service industries, such as banking,

insurance, domestic transport and advertising, all industries previously closed to inward FDI. This decision had been preceded by regulations by individual Andean Group members granting substantial exceptions from Decision 24 and allowing limited foreign participation in some of those industries.

At the international level, a few specific arrangements are particularly relevant to FDI in services. Most important among them are:

- The United Nations Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices, administered by UNCTAD, applies explicitly to services.
- The Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, administered by the ILO, is applicable to the whole range of social and employment issues relating to service TNCs.
- The Multilateral Investment Guarantee Agency (MIGA), negotiated under the auspices of the World Bank, offers also insurance for service TNCs. (MIGA is likely to come into effect in 1988.)
- The draft Code of Conduct on the Transfer of Technology under negotiation in UNCTAD also will apply to service TNCs once it is adopted.

However, all these arrangements deal only with aspects of the activities of service TNCs and, together, do not constitute a comprehensive framework for FDI in general or service FDI in particular.

The United Nations Code of Conduct on Transnational Corporations seeks to fill this gap by establishing a balanced international framework specifying the rights and responsibilities of foreign investors and countries (UNCTC, 1986b). Among other things, it deals with the right of establishment, fair and equitable treatment, national treatment, transparency, dispute settlement and balance-of-payments issues, and it envisages a follow-up monitoring mechanism. Agreement on the relatively few outstanding issues in the Code and its adoption by the United Nations would contribute to the predictability, stability and transparency which are essential if mutually satisfactory relations between TNCs and the countries in which they operate are to prevail. The comprehensive approach taken by the Code fully covers FDI in services and could be of considerable benefit for the development of these activities in the context of economic development and international co-operation. It could also help to ease the negotiations on trade in services which are now under way within the Uruguay Round of Multilateral Trade Negotiations. [9]

These negotiations on trade in services, which were launched in September 1986 in Punta del Este (Uruguay), are still at an early stage. Although they deal with *trade* in services, they may have implications, and perhaps far-reaching ones, for *foreign direct investment* in services (Sauvant and Zimny, 1987, pp. 27-55). Since many services are intangible and non-storable, they can only be delivered to foreign markets if foreign affiliates can be established to produce and sell those services in the host countries, or if at least a right of commercial presence is granted to facilitate transactions. Hence, the export of services is inexorably intertwined with FDI in services for major service-exporting countries. As a consequence, they seek to subsume FDI in services, or at least aspects of it (such as certain non-equity forms or trade-facilitating activities), under the trade régime for the purpose of establishing an international framework for trade in services.[10] If this approach prevails, it would represent a redrawing of the boundary lines for the purpose of this agreement: national treatment would then be granted not only to service products when they cross international boundaries (a key GATT principle for trade in goods), but also to the services provided by foreign affiliates. The application of the national treatment principle would then shift from service *products* to the *producers of services* , regardless of whether those producers are located abroad or in the importing country (that is, are foreign affiliates).

Some developing countries oppose this approach because, for them, trade and FDI remain separate types of transactions, which should be governed by different régimes. For them, the fact that certain services cannot be traded does not necessarily mean that FDI should be subsumed

9 For a discussion of the relationship between the Code and the international discussions on services, see Sauvant, 1986b.

10 In its domestic trade legislation, the United States has already done this. See the discussion of the 1984 Trade and Tariff Act in Sauvant, 1986b.

Box VI.5 Santa Claus, Inc.

Tourism is an important sector for many countries which can capitalize on their natural beauty, famous monuments, unusual features or myth. Since tourism promotes exports, brings foreign exchange and creates employment, some countries go to great lengths to conceive and to implement original ideas to attract tourists.

The Scandinavian countries have done this by building on the myth of Santa Claus. Taking advantage of their proximity to the North Pole, an abundance of snow and a large reindeer population, they compete with each other to be the true home of Santa Claus. Denmark had a headstart when a 1932 Walt Disney cartoon put the workshop of Santa Claus in Greenland; subsequently, children began to send letters to him there. Sweden has established a Santa Claus amusement park near Mora, which attracted 100,000 visitors in 1986 (the entrance fee: $6.75 for adults, half for children). A business group in Mo I Rana, near the Nordkap, Norway, is planning to make this village the home of Santa Claus.

So far, however, Finland seems to be making the running. International publicity through television, radio, the press, personal visits by Santa Claus to many countries, and a special post office address (which guarantees personal replies from Santa Claus) have elicited a growing response. Joulumaa (Christmas Country) in Rovaniemi, the capital of Finnish Lapland (the part of Finland that falls within the Arctic Circle), is the centre of attraction. The current Santa Claus village was visited by about 300,000 tourists in 1986. Hotels, restaurants, crafts, polar safaris and skiing thrive on them. The village has been so successful that plans are under way for a much bigger one. More attractions and better facilities will certainly increase its international competitiveness.

The Santa Claus project is sponsored by the provincial government of Lapland, the Finnish Tourist Industry and Travel Boards, the Finnish Foreign Trade Union, the Finnish Broadcasting Company and Finnair, which has been proclaimed "Santa Claus's official airline". However, the idea has been so lucrative that, in 1984, a British tour operator began offering a Christmasday tour to Santa Claus land on Concorde, operated by another transnational airline, British Airways. The thought of visiting Santa Claus by Concorde is obviously irresistible to many: by 1987, the number of Concorde flights had increased to four, with 400 believers making the trip. Two transnational shipping lines, Viking Line and Silja Line, combine cruises to Stockholm with tours to Santa Claus land. Santa Claus land is furthermore served by Hertz, Avis, Budget and Europecar. In line with the dismal state of statistics on services, no systematic time series data exist on the extent and pattern of presents received by the faithful.

What is clear, however, is that Santa Claus land has been firmly integrated into the transnational travel-tourism complex.

The Santa Claus example shows how a country can successfully create a competitive advantage in order to promote its tourism industry. Another example are theme parks (see box 4 in chapter V), through which imaginary characters are exploited nationally and internationally. Children's literature offers many ideas for countries (and particularly developing countries) to corner -- alone or together with transnational service corporations -- lucrative myth-market niches. Where will be the home of Ali Baba, Robinson Crusoe or Aladdin? Which island will become Treasure Island?

lations to attract FDI could have consequences no less detrimental than the continued application of outdated or inefficient regulatory controls. Nothing would be gained, for instance, if ownership merely changed from public to private hands, or if public monopolies were merely replaced by private ones which remained sheltered from the forces of competition. What is needed is a careful policy mix of measures to achieve efficiency gains and other objectives.

A first step could be for individual countries to study the nature of their service industries, their cross-linkages with other sectors and the importance of services for the attainment of overall economic objectives. A stock-taking of the regulatory framework and its economic effects would be part of this process. Improved information and understanding, greater transparency of rules and monitoring of effects, and better co-ordination among interrelated economic policies would be among the immediate benefits to be derived from such an exercise. In the course of that policy review, Governments could ask themselves whether the reasons which motivated their regulations still remain valid today, whether the measures taken have proved effective in terms of the objectives sought and, if not, what policy and regulatory adjustments are necessary to achieve those objectives.

As a next step, countries could assess their competitive position in the international market for services. Given the location-independent characteristics of some services, many possibilities exist (for an example, see box VI.4). But, even where location is an important factor, imagination and inventiveness can open possibilities (for an example, see box VI.5). Special attention should be given to the examination of the ways in which a stronger services sector might assist a country's competitiveness in the supply of industrial products. In this context, developing countries need to pay particular attention to the growing data content of many services and the importance of developing suitable policies for data services; this should include, most importantly, the improvement of the telecommunication infrastructure as well as of educational and training facilities. Rapid progress is necessary in the fast-moving area of data technologies, and experience shows that this is a feasible task for at least some countries and certain parts of the industries involved.

During both steps, the role of FDI and the conditions under which such investment could be put to most productive use for the host economy would have to be reviewed. Attention might be given, for example, to the extent to which certain investment controls may have deprived host countries from inflows of capital and the skills which are so essential for service activities. The possibilities and conditions of a complementary and mutually beneficial role for FDI and the domestic sector would merit careful study in this context, recognizing that it is for each country to decide on the admission of FDI in the context of policies which not only include economic, but also socio-cultural and political objectives.

A more liberal approach towards inward FDI in services does not negate the necessity for economic regulation. Indeed, it could well be that the regulatory system may require strengthening in certain countries as an accompanying measure to liberalization, for example, in the areas of prudential controls, consumer protection and competition. Furthermore, a flexible regulatory system may require the upgrading of administrative structures and decision-making capabilities. Country studies on the role of services, backed up, as appropriate, by workshops or technical assistance programmes sponsored by international institutions, can also be of assistance in this process.

As long as there are asymmetries in national regulatory systems, and as long as significant differences in levels of development and the perceived role of services FDI remain, investment régimes are bound to be different. And those differences cannot be overcome by the mere application of national treatment rules, unless this principle allows for the diversity of underlying situations. In addition, consideration should be given to the harmonization of regulatory systems. Such efforts seem to be particularly promising in the area of prudential controls, technical specifications and accounting standards, where progress achieved within regional groupings and international organizations could pave the way towards broader co-ordination at the international level.

Finally, intergovernmental co-operation on FDI in services needs to be improved. This may be achieved through the exchange of information and consultations between regulatory authorities, policy discussions and agreed international frameworks. All participants in the international invest-

ment process, TNCs and host countries alike, stand to benefit from such co-operation.

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OUTLOOK

There are a number of factors which suggest that the potential for transnationalization in services is lower than that in manufacturing:

- Data for the services sector as a whole could continue to show lower levels of transnationalization and low shares of TNCs in production, because the totals are heavily weighted with activities that, because of regulation, or because of the nature of the services themselves, are normally provided by local firms or Governments. The room for FDI growth is often in subsectors of the larger service industries. For example, the provision of retail banking services to individuals and local firms is less attractive than the provision of international banking services, the financing of trade and the provision of banking services to foreign-owned firms. The same is probably true for such services as legal, accounting, architectural, and engineering services, in which markets may well be split between local firms supplying smaller-scale and local demand, and some mixture of local and foreign firms supplying the needs of large firms, TNCs and Governments.
- United States service TNCs have grown in an economy in which services have accounted for a major share of the GNP for some time. Nevertheless, they are clearly less transnational than their manufacturing counterparts.
- In most industries, service TNCs do very little R & D, a factor which has been one of the principal ownership-specific advantages for manufacturing firms. This basic difference is not likely to change.
- Because many services are intangible and hence cannot be stored, they can be delivered to foreign markets only through FDI and not trade. However, as the application of data technology increases the tradability of services, the need for FDI may decrease (although it is conceivable that this may only lead to an expansion of intra-firm trade). An indication of this could be the fact that the number of foreign banking affiliates has virtually remained stable since the beginning of the 1980s, when data technologies were introduced on a large scale by transnational banks. More generally, foreign affiliates which had been established in the past may curtail or transform their on-the-spot operations.

On the other hand, a number of factors suggest that there is room for considerable growth:

- All indications are that the share of the services sector in most countries will continue to expand. As that occurs, it is also likely that international transactions in services will grow as well. And, since many firms are unable to exploit their competitive advantages abroad through trade because of the intangibility and non-storability of many services, a strong incentive exists to strive for entry into foreign markets through FDI. In spite of increased tradability, therefore, it is most likely that, at least for the immediate future, FDI will remain the most important vehicle through which many services will be delivered abroad.
- The faster growth of service industries relative to goods industries creates in many countries the opportunity (and incentive) for investment from abroad. In the United States, for example, employment in foreign-owned service affiliates rose at a faster pace than in goods production, but the foreign share did not grow as rapidly, because the United States services sector was growing much faster than the United States manufacturing sector (Lipsey, 1988, p. 50). Perhaps equally important, since service industry firms have been growing more rapidly in their home countries than goods producers, more of them are, by growing, moving into the size range in which FDI takes place. Since attaining a minimum size is one of the main determinants of firms becoming transnational, the growth of the services sector should push many more service industry firms over the size threshold.
- An added, and obviously not unattractive, factor is that services FDI seems to be quite profitable. While foreign service and manufacturing affiliates of United States TNCs in developed and developing countries both showed an average rate of return of 11 per cent during 1980-1986, the figure for service affiliates in developing countries was 14.5 per cent, compared to 9.5 per cent for manufacturing affiliates. In the case of Japan, foreign service affiliates also experienced (in 1983) higher rates of return than foreign manufacturing affiliates. In addition, the 1983 rate of return for Japanese foreign trade affiliates was twice that of their parent firms, a situation that did not

prevail in manufacturing. If these earning prospects can be maintained, they will be an additional stimulus for growth.[1]

- United States data clearly show that, in the aggregate, service TNCs are considerably less transnationalized than manufacturing TNCs. It is very likely that the same applies (perhaps even more so) to TNCs from other principal home countries. In other words, there is considerable room for substantial growth. The rapid increase in FDI in services during the first half of the 1980s indicates that firms are actually beginning to realize this potential. Opportunities that were not taken in the past are now being exploited. All this suggests that there is, in fact, a transnationalization gap between industrial and service TNCs, and that this gap is being closed. How far this can be done depends, of course, on the extent to which TNCs possess (and utilize) advantages over local firms in the countries in which they might establish (or expand) their affiliates.
- The further expansion of FDI in the industrial sector, as well as the further growth of international trade, technology transfer, financial intermediation, tourism and the growth of transnationalization in the world as a whole, is likely to pull along service firms interested in servicing their clients abroad. Furthermore, transnational industrial firms, even more so than in the past, may expand their own networks of service affiliates abroad to obtain in-house the services they require. However, economies of scale may place service TNCs in a better position to provide those services. If such externalization should take place, this (in the past very important) source for the growth of FDI in services may lose some force.
- The rapid growth of FDI from Japan and the Federal Republic of Germany is likely to be accompanied by a rapid increase of their outward services FDI stocks -- be it because industrial firms establish their own foreign service affiliates or because service firms follow their industrial counterparts abroad. The result may well be a substantial change in the ownership structure of FDI in services, with the United States losing (as in manufacturing) its leading position. A longer view of future trends would furthermore suggest that there is room for the appearance of service TNCs based in developing countries. Since many service industries are labour-intensive, they should be appropriate fields for the expansion of firms based in developing countries, once they reach the required level of size and sophistication.

How these various factors will influence developments is, of course, difficult to predict. On balance, however, it is very likely that FDI and TNCs in services will continue to expand rapidly abroad, in absolute terms and as a share in the total. The likelihood that this will happen underlines all the more the need to examine what consequences this development will have for host countries, and especially developing ones.

There is, however, one crucial variable which strongly influences the extent to which these various factors can assert themselves: the nature of the regulatory environment. During the mid-1980s, FDI in many service industries faced considerable government regulation and controls, more frequently and more restrictive, in fact, than most manufacturing industries. For instance, some capital-intensive and technically sophisticated service industries, such as telecommunication, air transport and electricity, are normally closed to foreign investors, and in such crucial services as banking, insurance and other financial services, FDI is often restricted. Yet, in at least one of these industries, FDI has been important in the past: public utilities accounted for 14 per cent of United States FDI abroad in 1929 and 13 per cent as late as 1957 (Lipsey, 1988).

It may well be that the regulatory environment will not change substantially in the coming years; and there is widespread agreement that the provision of many services requires more careful supervision than that of goods. But if the 1990s become a decade of liberalization for FDI in services -- in the same way in which the 1980s have been a decade of liberalization for FDI in manufacturing -- then the single most important factor constraining the growth of FDI and TNCs in services would no longer be valid.

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1 See United States, Department of Commerce, *Survey of Current Business*, various issues (the service data for the United States include mining, agriculture, fisheries and forestry); and Japan, Ministry of International Trade and Industry, *Kaigai Jigyo Katsudo Kihon Chosa: Kaigai Toshi Tokei Soran*, 2nd Survey (Tokyo, Keibun Shuppan, August 1986).

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Statistical annexes

Methodological note

Systematic time-series statistics on FDI in services are available only for a few countries. Even when such data are available, they suffer from both the well-known deficiencies of FDI statistics in general (see E/C.10/1986/3) and from particularly difficult conceptual problems surrounding services.

A major problem (and one familiar in national accounting) is that of the definition and coverage of the services sector. Most countries do not formally define the services sector for their FDI statistics. Rather, they usually classify the data on services by a few major activities like trading, financial services, transportation and communication, together with items which are important to their own economies, such as real estate or services related to the petroleum industry. Only the United States separates the latter services, and they include mostly trade- and transport-related services. Moreover, countries differ in the way they group their major service categories. Transportation is frequently lumped together with communication, and at times with storage (the Netherlands) or public utilities (the United States). The remaining services are usually shown with little or no detail and included in such categories as "other services" (the Netherlands), "services" (the Federal Republic of Germany, the United States, Japan), "other non-manufacturing" (Japan) or "other enterprises" (Canada). Even the concept "services" is interpreted differently by different countries. In Japanese data, the term "services" is used in two ways: first, to distinguish the services sector as a whole ("commerce and services"), and second, as a narrower category containing "other" services, along with the additional residual service category, "other non-manufacturing". In the first sense, the services sector in Japanese data includes construction, which is excluded from the services sector by the Netherlands data. In the case of the United States, the concept "services" is used in a very specific sense; it refers to business services and such other services as hotels, health services, rentals and education. Altogether it can be disaggregated in some 18 services activities -- a unique feature of the United States data. No other country provides such detailed breakdown of the services category. In the case of the Federal Republic of Germany, the narrow "services" item comprises real estate (reported separately in many countries, or combined with finance), holdings (considered by the United States as a part of the larger item "finance, insurance and real estate") and other unspecified services (for example, Canada's category "other enterprises"); it is not known where such activities as construction (Canada) and public utilities (France, Japan, the Netherlands) are included; and the classification of "holdings" (an important FDI activity) varies and is sometimes unclear. While in some countries (the Federal Republic of Germany, the United States) "holdings" are considered as part of services FDI, in others it is not clear where they are included.

If countries provided a detailed breakdown, the data could be adjusted in a manner which would permit the same coverage of the services sector and hence the full comparability of data between countries. However, with the notable exception of the United States, this is not possible. Hence, for most countries, the only adjustments which can be made are limited to the inclusion of public utilities and construction in the services sector. It should also be noted that some countries do not include in their FDI data such important service activities as banking and insurance (for example, Indonesia and the United Kingdom prior to 1981).

Only a few developed countries publish FDI data broken down by major service industries, which also provide geographical distribution of FDI stocks and flows, that is, the countries of origin and the destination of FDI. However, cross tabulations of industries with countries are usually done at a higher level of aggregation for industries. For instance, in the United States, it is no longer possible to single out petroleum-related services or retail trade, transportation and construction. The former became part of "petroleum" and the latter become part of a residual category "other industries", which also includes mining, agriculture, forestry and fishing. Therefore, industry/country data are usually less precise and not strictly comparable with the industry data.

There are other problems in the interpretation of the data on services. For instance, lending between parent companies and foreign affiliates (which should normally be considered as part of FDI) should be recorded either as new investment (when a parent firm lends to a foreign affiliate) or as disinvestment (when a foreign affiliate lends to a parent firm). However, some parent companies establish finance affiliates in offshore financial centres, with the sole purpose of borrowing funds from the world's financial markets and of re-lending them to the parent firms. Such lending may considerably affect the value of the "normal" FDI flows and stocks of the countries involved and result in an over- or under-estimation of stocks in the years when it occurs. These specific kinds of flows seriously affect the share of services in total FDI, since they are recorded under the item "finance". This is particularly the case with finance affiliates of the United States TNCs located in the Netherlands Antilles. Therefore, these stocks of FDI have been excluded from the United States data.

Another example (noted earlier) concerns the role of holding companies. These are classified by at least two important home countries as FDI in services, and can inflate the volume of the country's FDI stock in services abroad to the extent to which holdings are in non-service industries. Other countries do not provide separate information on holdings. It can only be assumed that they are reported under the same industries as those of their parents or affiliates. Similarly, the measurement of FDI in transportation is complicated by the existence of flags-of-convenience in shipping. It is not always clear whether those flags constitute a form of FDI. Some major home countries (like Japan or the United States) include them in FDI data, while countries hosting flags of convenience affiliates must not necessarily do so. The substantial discrepancy between the total stock of FDI in Panama, as reported in Panamanian official sources, and the United States FDI stock in Panama, as reported by United States official sources, may be explained by this difference in approach.

It should also be noted that activities of TNCs in services and FDI in services are not the same thing, since many industrial TNCs establish service affiliates abroad, and *vice versa* , service TNCs can invest in manufacturing or extractive industries. Most countries collect FDI data on the basis of the industry or destination of inward or outward investment, that is, on the basis of the sectoral classification of foreign affiliates. But the Netherlands, for instance, reports outward FDI data only on the basis of the sectoral classification of the parent company. A few home countries compile information on the basis of both approaches, which allows an examination of the extent to which FDI in services results from the expansion of service TNCs or from cross sector investment.

Most countries limit their FDI data collection to one or two variables, such as the value of FDI stocks and/or flows. Only a few developed countries publish data on other variables, such as assets, sales and employment of foreign affiliates. One of these notable exceptions is the United States, which collects comprehensive financial and operating data for TNC parents and affiliates and transactions between them. Not surprisingly, therefore, data of this country are used most frequently to illustrate many aspects of the activities of service TNCs.

Annex table A.1. United States: Increase in the stock of outward foreign direct investment, by industry and region, 1977-1985
(Billions of dollars)

Industry	All countries [a]	Developed market economies	Developing countries	Latin America and the Caribbean [b]	Offshore centres [c]	Asia and Pacific	Africa	Middle East
All industries [d]	107.1	62.6	43.1	9.3	13.7	9.4	2.9	8.4
Petroleum [e]	30.3	12.9	15.8	1.9	0.8	4.0	2.6	6.6
Manufacturing	33.6	25.3	8.2	5.3	0.4	2.0	0.1	0.3
Services [f]	43.6	24.5	19.6	2.1	12.4	3.4	0.1	1.5
Services								
Wholesale trading	7.0	4.3	2.6	0.3	0.5	1.3	0.02	0.53
Banking	10.3	3.1	5.4	0.4	3.8	0.9	0.17	0.24
Finance, insurance, real estate	21.4	11.7	9.8	0.8	8.5	0.6	-0.14	-0.07
Other services	1.5	1.0	0.5	) 0.7	) -0.3	0.3	0.06	0.45
Other industries [f]	3.4	2.4	1.3	)	)	0.1	0.01	0.24

Source: UNCTC, based on United States, Department of Commerce, *US Direct Investment Abroad, 1977* (Washington D.C., 1981) and *US Direct Investment Abroad: 1982 Benchmark Survey Data* (Washington D.C., 1985).

Note: Numbers in the table are the difference between the value of stock in 1977 and 1985.

a Geographical breakdown excludes "international".
b Excludes offshore centres.
c Bahamas, Bermuda, Panama, Trinidad and Tobago and other Caribbean Islands.
d Excludes investment in "finance, insurance and real estate" in the Netherlands Antilles.
e Includes related services.
f Includes mining, forestry, agriculture and fishing.

Annex table A.2. Japan: Increase in the stock of outward foreign direct investment, by industry and region, 1977-1985
(Billions of dollars)

Industry	All countries	Developed market economies	Developing countries	North America	Western Europe	Oceania	Latin America and the Caribbean [b]	Asia	Africa	Middle East
All industries [a]	61.4	32.5	28.9	21.5	7.9	2.9	11.9	13.1	2.5	1.5
Primary [b]	7.1	1.9	5.2	0.9	..	1.0	1.0	3.8	0.2	0.2
Manufacturing	17.3	8.8	8.5	6.4	1.7	0.6	2.5	4.9	0.1	0.8
Services	34.9	20.6	14.3	13.4	5.8	1.4	8.3	4.1	2.1	-0.2
Construction	0.6	0.2	0.4	0.2	-	-	0.1	0.2	-	-
Trading	9.7	8.0	1.7	5.4	2.1	0.5	0.8	0.9	-	-
Finance and insurance	9.2	7.0	2.1	3.6	3.2	0.3	1.5	0.6	-	0.1
Real estate	1.9	2.0	-0.1	1.8	-	0.1	-	0.3	-	-0.4
Other services [c]	13.5	3.3	10.2	2.4	0.5	0.5	5.9	2.2	2.1	-

Source: Ministry of Finance, Government of Japan.

Note: Numbers in the table are the difference between the stock in 1977 and in 1985.

a Individual industry data do not add up to the total because data for "branches" and "fixed assets" are not available.
b Includes agriculture, forestry, fishing, mining and petroleum.
c "Other non-manufacturing" for 1977 and 1985 plus "services" and "transportation" for 1985.

Annex table A.3. Selected home developed countries: Composition of outward foreign direct investment in services, latest available year

(National currency in billions)

Country	Year	Value of stock in services	Industry share (Percentage)										
			Trading	Banking	Insurance	Other finance	Holdings	Real estate	Transport	Communications	Public utilities	Construction	Other services
Australia (Australian dollars)	1983	1.6	22.2	----------53.1[a]----------			NSA	NSA	14.1	NSA	NSA	4.2	5.7
Austria (schillings)	1982	5.9	6.3	----------61.8----------			NSA	NSA	----------0.1----------			NSA	31.8
Canada (Canadian dollars)	1984	12.1	14.8	----------58.7----------			NSA	NSA	----------13.2	[b]--------		NSA	13.2
France (French francs)	1983	41.7	25.9	----------47.9----------			NSA	5.2	------4.6-------		NSA	NSA	5.1
Germany, Federal Republic of (deutsche mark)	1985	70.3	42.2	12.9	7.7	10.4	11.2	8.4	------2.0-------		0.2	1.8	2.7
Italy (lire)	1984	6 657.0	12.5	----------84.2----------			NSA	NSA	------1.4-------		NSA	NSA	1.8
Japan (dollars)	1986	60.6	24.0	----------29.9----------			NSA	10.8	12.9	NSA	NSA	1.7	20.7
Netherlands (guilders)	1984	31.7	32.2	----------31.5----------			NSA	NSA	------5.0-------		NSA	3.6	28.1
Spain (pesetas)	1983	1135.0	21.3	----------65.3----------			NSA	NSA	----------2.7----------			7.4	3.2
United Kingdom (pounds)	1984	26.4	39.1	5.6	16.1	5.5	NSA	10.4	5.7	NSA	NSA	3.7	14.0
United States (dollars)	1986	119.1[c]	32.4[d]	13.1	7.2	11.7	21.9	0.4	2.6[e]	0.6	0.3	1.0	8.5[f]

Source: UNCTC, based on official national sources and J. Dunning and J. Cantwell, eds., *IRM Directory of International Investment and Production* (New York, New York University Press, 1987).

Note: NSA - not separately available.

a Includes property.
b Refers to "railways and other utilities".
c Excludes Netherlands Antilles.
d Includes petroleum wholesale.
e Includes petroleum tanker operations and pipelines.
f Business and other services and 4.2 per cent of oil and gas-field services.

Annex table A.4. Selected host countries: Composition of inward foreign direct investment in services, by major categories, latest available year
(Billions of currency and percentage)

Country or territory	Year	Value of stock in services	Industry share (Percentage) Trading	Banking, finance, insurance	Real estate	Holding companies	Transport	Communications	Public utilities	Construction	Other services
Developed countries											
Belgium (Belgian francs)	1981	41.3	35.1	NSA	NSA	NSA	NSA	NSA	NSA	NSA	64.9
Canada (Canadian dollars)	1984	23.6	27.1	55.9	NSA	NSA	NSA	NSA	2.9	NSA	13.9 [a]
France (French francs)	1983	55.1	30.3	16.1	39.4	NSA	------ 1.2 ------		NSA	NSA	8.7
Germany, Federal republic of Federal Republic of (deutsche mark)	1985	54.9	36.2	19.1	2.4	31 .8	------ 2.5 ------		1.1	0.7	4.4
Italy (lire)	1985	11 752	12.3	64.5	NSA	NSA	------ 4.1 ------		NSA	NSA	19.1
Japan (dollars)	1986	2.0	43.7	35.2 [b]	NSA	NSA	------ 2.9 ------		NSA	2.9 [c]	15.4
Netherlands (guilders)	1984	24.9	42.2	24.5	NSA	NSA	------ 2.8 ------		NSA	2.8	27.7
United Kingdom (pounds)	1984	13.3	24.1	33.8	10.5	NSA	------ 1.5 ------		NSA	1.5	1.5
United States (dollars)	1986	111.2	41.3	27.8	19.1	NSA	------ 2.1 ------		3.3	6.4 [d]	
Developing countries/territories											
Latin America											
Argentina (dollars)	1985	0.9	9.7 [e]	62.0	NSA	NSA	NSA	NSA	NSA	6.2	22.2
Bolivia (doliars)	1986	0.06	16.5	82.3	NSA	NSA	NSA	NSA	NSA	1.2	NSA
Brazil (dollars)	1985	5.6	17.7	19.0	2.5	44.4	0.9	NSA	-	NSA	15.3
Colombia (doliars)	1986	0.35	39.4	49.6	NSA	NSA	------ 8.3 ------		0.6	0.9	1.1
Ecuador (dollars)	1985	0.6	26.3	26.6	NSA	NSA	0.4	NSA	NSA	1.7	45.0
Mexico (dollars)	1981	3.2	33.3	58.4	NSA	NSA	1.7	NSA	NSA	6.1	0.6
Panama (dollars)	1983	0.2	37.6		-10.0--	NSA	------ 48.6 ------		NSA	NSA	3.9
Paraguay (dollars)	1984	0.26	NSA	75.7	NSA	NSA	2. 2	NSA	NSA	NSA	22.0 [f]
Peru (dollars)	1985	0.4	40.1	23.3	13.3	NSA	1.9	2.3	7.7 [g]	0.9	10.3 [h]
Venezuela (dollars)	1984	0.65	16.9 [i]	------ 47.9 ------		NSA	------ 3.6 ------		17.5	11.7	2 .2
Asia and Pacific											
Bangladesh (dollars)	1982	0.012	81.7	NSA	NSA	NSA	0.2	NSA	NSA	-	18.0
Indonesia (dollars)	1985	0.7	44.9	..	NSA	NSA	2.5	5.7	NSA	9.3	37.5[j]
Korea, Republic of (dollars)	1986	0.7	NSA	12.7	NSA	NSA	4.0	NSA	- [g]	18.9	64.4 [k]
Malaysia (dollars)	1984	1.2	17.2	64.3	NSA	NSA	NSA	NSA	NSA	2.0	16.5
Philippines (dollars)	1983	0.5	19.9 [l]	55.0	NSA	NSA	------ 6.1 ------		NSA	4.0	14.9
Singapore (dollars)	1981	4.2	32.1	57.8	NSA	NSA	------ 6.6 ------		NSA	2.6	0.7
Thailand (dollars)	1984	0.9	39.1	14.0	2.1	NSA	------ 8.9 ------		NSA	28.2	7.8
Taiwan Province (dollars)	1985	1.2	2.1 [m]	20.3	NSA	NSA	5.2	NSA	NSA	9.2	63.3
Africa											
Egypt (dollars)	1984	6.7	NSA	39.0	NSA	NSA	NSA	NSA	NSA	21.3	39.7
Morocco (dollars)	1982	0.4	9.3	9.7	32.1 [n]	NSA	------ 4.7 ------		NSA	NSA	44.1
Nigeria (dollars)	1982	1.6	43.3 [o]	7.5 [p]	NSA	NSA	------ 2.6 ------		NSA	46.4 [q]	NSA

Source: See annex table A.3.

Note: NSA - not separately available.

a Other enterprises.
b Includes unclassified services.
c Includes real estate.
d Includes 1 per cent petroleum-related services.
e Marketing.
f Includes 4.4 per cent of hotels.
g Electric power.
h Includes 2.1 per cent of tourism.
i Includes restaurants and hotels.
j Includes 17.4 per cent of hotels.
k Mainly hotels and tourism.
l Includes property.
m Foreign trade.
n Property.
o Includes business services.
p Includes consultancy and other services.
q Building and construction.

Annex table A.5. Share of finance- and trade-related services in the stock of foreign direct investment in services of selected countries
(Percentage)

Country	Year	Outward FDI		Inward FDI	
		Financial services	Trading	Financial services	Trading
Developed countries					
Austria	1982	61.8	6.3	..	-
Australia	1984	53.1[a]	22.2	..	..
Canada	1984	58.7	14.8	55.9	27.1
France	1983	47.9	25.9	16.1	30.1
Germany, Federal Republic of	1985	42.2[b]	42.2	50.9[b]	36.2
Italy	1984	84.2	12.5	40.9	24.6
Japan	1986	29.9	24.0	35.2	43.7
Netherlands	1984	31.5	32.2	24.5	42.2
Spain	1983	65.3	21.3	..	..
United Kingdom	1984	27.2	39.1	33.8	24.1
United States	1986	53.9[b]	32.4[c]	27.8[b]	41.3
Developing countries/territories					
Argentina	1985	..	..	62.0	9.7
Bangladesh	1982	..	..	..	81.7
Brazil	1985	..	..	63.4[b]	17.7
Colombia	1986	..	..	49.6	39.6
Ecuador	1985	..	..	26.6	26.3
Egypt	1984	..	..	39.0	-
Korea, Republic of	1986	..	..	12.7	..
Malaysia	1984	..	..	17.2	64.3
Mexico	1981	..	..	58.4	33.3
Morocco	1982	..	..	9.7	9.3
Nigeria	1982	..	..	7.5	43.3[d]
Paraguay	1984	..	..	75.7	..
Peru	1985	..	..	23.3	40.1
Philippines	1983	..	..	55.0	19.9[e]
Singapore	1981	..	..	57.8	32.1
Taiwan Province	1985	..	..	20.3	2.1[f]
Thailand	1984	..	..	14.0	39.1

Source : Annex tables A.3 and A.4.

a Includes property.
b Includes holding companies.
c Includes petroleum wholesale.
d Includes business services.
e Includes real estate.
f Foreign trade.

Annex table A.6. Increase in foreign direct investment in services by industry: Annual average rates of growth and percentage distribution, selected home and host countries
(Percentage)

Industry	Yearly average growth rates									Percentage distribution of increase by industry								
	Outward FDI					Inward FDI				Outward FDI					Inward FDI			
	United States 1977-1985	Japan 1977-1985	Germany, Federal Republic of 1976-1984	Canada 1976-1984	Netherlands 1973-1984	United States 1980-1985	Germany, Federal Republic of 1976-1984	Canada 1976-1984	Netherlands 1973-1984	United States 1977-1985	Japan 1977-1985	Germany, Federal Republic of 1976-1985	Canada 1976-1984	Netherlands 1973-1984	United States 1980-1985	Germany, Federal Republic of 1976-1984	Canada 1976-1984	Netherlands 1973-1984
Wholesale trade	4.5	20.0	15.8	20.7	14.1	19.4	8.2	10.4	12.8	17.1	27.8	47.1	15.9	30.1	35.2	39.4	25.9	40.3
Retail trade	4.6					12.6												
Banking	16.3	26.1	16.3	27.8	23.7	20.1	8.8	12.9	16.0	21.5	26.4	11.8	69.3	35.1	12.7	14.1	60.7	25.6
Insurance	12.4		26.5			12.5	11.9			10.0		8.2			9.0	4.9		
Finance	7.2		28.5			29.3	..			11.7		12.2			6.2	1.2		
Holdings	8.7	..	8.7	NSA	NSA	..	10.3	NSA	NSA	22.7	NSA	7.3	NSA	NSA	NSA	31.9	NSA	NSA
Real estate	12.1	18.1	21.8	NSA	NSA	24.9	7.6	NSA	NSA	0.6	5.4	10.5	NSA	NSA	22.9	3.7	NSA	NSA
Construction	3.6	18.7	18.2	NSA	6.7	51.6	-4.9	NSA	12.1	0.6	1.7	2.9	NSA	1.9	6.4	-0.4	NSA	1.6
Transportation	0.7	NSA	6.6	NSA	0.3	17.6	3.0	NSA	5.2	0.2	NSA	1.3	NSA	1.2	1.8	1.2	NSA	NSA
Communication	-11.5	NSA		NSA				NSA		-0.4	NSA		NSA				NSA	NSA
Public utilities	14.7	NSA	NSA	-	NSA		NSA	2.0	NSA	0.4	NSA	NSA	-	NSA		NSA	0.7	NSA
Other services	3.9 [a]	23.7 [b]	14.7	23.3	25.6	21.4 [a]	9.0	9.5	17.3	12.5 [a]	NSA	NSA	NSA	NSA	2.9 [a]	NSA	NSA	NSA
Petroleum-related services	6.1	NSA	NSA	NSA	NSA	13.0	NSA	NSA	NSA	12.5	NSA	NSA	NSA	NSA	2.9	NSA	NSA	NSA
Total services FDI	7.3	22.6	16.3	17.3	16.7	19.6	8.5	11.2	6.1	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source : See annex table A.3.

Note : NSA = not separately available.

a Mainly business services.
b Includes transportation, communication and public utilities.

Annex table A.7. United States: Total assets of non-bank foreign affiliates, by industry of United States parent and by industry of affiliate, 1982
(Billions of dollars and percentage)

Industry of parent (Origin)	*All industries*	*Industry of affiliates (Destination)*					
		Petroleum	*Manufacturing*	*Wholesale trade*	*Finance (excluding banking), insurance and real estate*	*Business and other services*	*Other industries* [b]
				Billions of dollars			
All industries	**751.5**	**195.2**	**265.8**	**57.8**	**161.3**	**19.7**	**51.9**
Petroleum [a]	236.9	173.2	16.1	2.9	29.9	1.4	13.3
Manufacturing	380.3	13.3	236.1	44.6	60.1	9.1	17.0
Services							
Wholesale trade	14.7	0.6	3.4	7.6	1.4	0.7	0.8
Finance (excluding banking), insurance and real estate	72.2	4.0	6.9	1.1	57.2	1.0	2.1
Business and other services	9.6	..	0.5	..	1.5	5.9	0.4
Other industries [b]	37.8	..	2.7	..	11.1	1.5	18.1
				Percentage distribution			
All industries	**100.0**	**26.0**	**35.4**	**7.7**	**21.5**	**2.6**	**6.9**
Petroleum [a]	100.0	73.1	6.8	1.3	12.6	0.6	5.6
Manufacturing	100.0	3.5	62.1	11.7	15.8	2.4	4.5
Services							
Wholesale trade	100.0	4.3	23.2	52.0	9.8	4.9	5.7
Finance (excluding banking), insurance and real estate	100.0	5.6	9.5	1.5	79.1	1.4	3.0
Business and other services	100.0	(10.1)	5.5	2.4	15.9	61.5	4.6
Other industries [b]	100.0	(8.1)	7.1	3.4	29.4	4.1	47.9
				Percentage distribution			
All industries	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Petroleum [a]	31.5	88.7	6.0	5.0	18.5	7.1	25.6
Manufacturing	50.6	6.8	88.8	77.2	37.2	46.2	32.7
Services							
Wholesale trade	1.9	0.3	1.3	13.1	0.9	3.5	1.5
Finance (excluding banking), insurance and real estate	9.6	2.0	2.6	1.9	35.8	5.1	4.0
Business and other services	1.2	..	0.2	..	0.9	29.9	0.8
Other industries [b]	5.0	..	1.0	..	6.9	7.6	34.9

Source: United States, Department of Commerce, *Survey of Current Business*, Vol. 65, No. 12 (December 1985), p. 44.

a Includes petroleum services.
b Agriculture, mining, construction, transportation, commu nication and public utilities, retail trade. Affiliates in the two latter categories account for 54 per cent of the assets of "other industries" by industry of affiliate and for 80 per cent of assets by industry of parent.

ANNEX B

THE WORLD'S LARGEST SERVICE CORPORATIONS

Methodological note

The data on the largest companies in the service industries have been compiled from a variety of sources, including company directories (for example, *Who Owns Whom, Moody's)*, general business periodicals (for example, *Fortune, Forbes)*, industry journals (for example, *Advertising Age; Hotels and Restaurants International; The American Lawyer; Engineering News Record)* and annual reports. Once the basic data had been collected, they were sent to firms for verification and completion; in addition, many companies were contacted by telephone to clarify particular questions. Most of these inquiries yielded data identical with, or close to, those obtained from the published sources. In most cases for which *Who Owns Whom* provided data, these were taken for the tables compiled in this study.

Throughout the data-collection process, a number of problems were encountered relating to the identification, selection and ranking of the largest companies and TNCs, their assignment to a given industry, the availability and comparability of variables between companies and industries and, in particular, the proper measurement of the foreign component of the activities of TNCs. Although utmost efforts were made to resolve these difficulties and to apply unified standards and definitions to all corporations (or at least corporations in a given industry), this was not possible in all cases. Matters were further complicated by the fact that, unlike in the case of national income or international trade, no world-wide standards exist concerning accounting rules and data-disclosure requirements. They vary from country to country and from industry to industry. Even if a country collects data on the world-wide activities of its TNCs (few do), data-collection requirements do normally not extend to, for instance, minority-owned affiliates and non-equity forms.

Despite these shortcomings, the data collected for this study are quite satisfactory in providing a general picture of TNCs in services and the pattern of their activities. What follows is a description of major problems encountered during the collection of the data and the way in which these problems were tackled:

a. Identification of the largest companies in each industry

For most service industries, professional publications were used to identify the world's largest companies. It is not always certain, however, to what extent these publications, which focus mostly on developed market economies, also cover companies from socialist countries and developing countries. An extra effort was made to deal with this problem, for instance, by cross-checking with the list of largest companies in developing countries, published by *South*. The major methodological problems relate to the industry assignment of companies (sometimes made difficult because some companies are quite diversified); choice of juridical forms (holding company or parent company vs. its subsidiaries); and types of companies within an industry (for example, wholesale vs. retail companies).

In the case of diversified companies, their assignment to a given industry was based on the major activity of that company. It was not always easy to establish this activity, particularly when a firm is active in more than two industries (for example, American Express: insurance, banking, securities and credit cards) and neither of them is clearly the major one. In such cases, the industry classification of a company was a matter of judgement.

Given the variety of forms in which a company may be organized (some of them are characteristic of a given industry), it was not possible to use unified criteria to distinguish companies according to form (holdings, groups, corporations, subsidiaries etc.). For companies organized as groups or holdings within the same industry, the data refer to these groups or holdings rather than to the individual participating companies, even if they are legally independent (for example, in advertising, accounting). Companies which are subsidiaries of holding parents in a different industry, and are clearly identifiable as separate units (by name or legal form), are reported separately wherever possible. This is the case with some hotels (belonging to airlines, or belonging with airlines to the same holding company) and insurance and reinsurance companies, where in many cases the latter belong to insurance companies.

Some service industries encompass under a generic name a number of distinctive functions and/or types

of companies which are not always easy to classify. An example is "trading", which can be disaggregated by type of trading (wholesale vs. retail) and by type of trading companies (commodity traders, supermarkets, marketing subsidiaries of industrial companies). The distinction used in this publication (wholesale and retailing companies and supermarkets) is certainly not a perfect one, combines companies with different characteristics (for example, Japanese *sogo shosha* with West European traders), and may leave out some types of companies altogether (for example, commodity traders and trading subsidiaries of large industrial companies).

b. Variables measuring size

In most cases, revenues (or sales) were selected to determine the size and ranking of each company. In some cases, however, other variables were used, either because revenue figures were not available (law firms, construction companies) or because other variables were a more appropriate measure of size in a given industry (accounting, reinsurance). It should be noted that choice of variable affects the ranking of the largest companies. For example, the ranking of the largest banks by revenues is different from the ranking by assets. Wherever possible, the data for several variables (net income, assets, employment, physical units) have been reported in addition to the ranking variable.

c. Foreign affiliates

The possession of foreign affiliates is the major criterion used to determine whether a company is a TNC or not. The term "foreign affiliate" is used in a generic sense. Wherever possible, it includes branches, subsidiaries, representative and other offices and units linked to a parent corporation through non-equity (contractual) arrangements (for example, management contracts or franchising agreements). In other words, the determining criterion was not ownership but rather control over activities. However, a strict application of this approach was not possible in each case. In banking, all foreign affiliates were included, while in such industries as trading and insurance, affiliates were limited to branches and subsidiaries. In some industries, the typical form of foreign presence is an office (accounting, law firms), while in other franchised units seem to prevail (fast-food). The data on the number of foreign affiliates are, therefore, difficult to compare across industries.

An effort was made to compile data for 1980 and 1976, but in most instances data, for these years were difficult to obtain.

Annex table B.1. The 50 largest banks, 1986

Rank [a] 1986	Rank [a] 1980	Bank and home country	Assets less contra accounts (Millions of dollars)	Total deposits (Millions of dollars)	Number of employees	Share of assets outside home country[b] (Percentage)	Share of deposits outside home country[b] (Percentage)	Share of employment outside home country[b] (Percentage)	Foreign network [c] (Number of entities and host countries/territories) Total	Developed market economies	Developing market economies	Centrally planned economies	Memo: Major offshore centres in developing market economies[d]
1	10	Dai-Ichi Kangyo Bank Japan	240 742 [e]	186 932	20 024	..	31.8 [f]	4 [g]	44 (23)	22 (9)	20 (13)	2 (1)	7 (3)
2	12	Fuji Bank Japan	213 471 [e]	167 355	15 403	..	32.0 [f]	2 [g]	37 (20)	20 (9)	17 (11)	- (-)	6 (3)
3	13	Sumitomo Bank Japan	206 120 [e]	165 305	13 989	..	31.0 [f]	21 [g]	48 (28)	26 (11)	18 (16)	4 (1)	7 (5)
4	16	Mitsubishi Bank Japan	204 794 [e]	159 441	13 345	..	31.4 [f]	5 [g]	53 (25)	24 (10)	25 (14)	49 (1)	(5)
5	14	Sanwa Bank Japan	192 290 [e]	152 608	15 341	..	30.9 [f]	25 [g]	41 (21)	18 (8)	21 (12)	2 (1)	7 (4)
6	1	Citicorp United States	191 355	114 689	88 500	46.8	53.0	48	240 (88)	87 (25)	151 (62)	2 (1)	31 (8)
7	19	Norinchukin Bank Japan	162 353 [e]	146 192 [e]	3 257	..	..	- [g]	2 (2)	2 (2)	- (-)	- (-)	- (-)
8	26	Industrial Bank of Japan [h] Japan	161 617 [e]	138 091	5 447	..	..	..	38 (21)	22 (10)	13 (10)	3 (1)	6 (4)
9	3	Crédit Agricole France	154 407	131 712	73 228	..	..	-	2 (2)	2 (2)	- (-)	- (-)	- (-)
10	4	Banque Nationale de Paris France	141 871	120 292	58 623	..	35.4 [i]	8	128 (67)	63 (20)	58 (42)	7 (5)	14 (6)

Annex table B.1. (continued)

Rank [a]		Rank and home country	Assets less contra accounts	Total deposits	Number of employees	Share of assets outside home country[b]	Share of deposits outside home country[b]	Share of employment outside home country[b]	Foreign network [c] (Number of entities and host countries/territories)				
									Total	Developed market economies	Developing market economies	Centrally planned economies	Memo: Major offshore centres in developing market economies[d]
1986	1980		(Millions of dollars)			(Percentage)							
11	31	Tokai Bank Japan	138 458 [e]	113 810	13 296	..	28.8 [f]	4 [g]	37 (21)	19 (9)	16 (11)	2 (1)	5 (3)
12	5	Crédit Lyonnais France	132 076	113 780	54 557	29.6 [j]	29.2	6	102 (53)	58 (17)	42 (34)	2 (2)	6 (5)
13	29	Mitsui Bank Japan	132 043 [e]	104 858	10 787	..	29.1 [f]	2 [g]	49 (27)	22 (9)	24 (17)	3 (1)	6 (4)
14	8	Deutsche Bank Germany, Fed. Rep.	131 808	81 356	50 590	..	..	8	67 (43)	34 (16)	31 (25)	2 (2)	6 (4)
15	48	Mitsubishi Trust & Banking Japan	127 372 [e]	111 065	6 229	..	..	1 [g]	8 (6)	5 (4)	3 (2)	- (-)	3 (2)
16	54	Sumitomo Trust & Banking Japan	125 157 [e]	110 671	5 998	..	..	4 [g]	16 (14)	9 (7)	6 (6)	1 (1)	4 (4)
17	9	National Westminster Bank United Kingdom	122 862	107 285	94 000	58.4 [ik]	63.5 [ik]	11	30 (23)	22 (16)	7 (6)	1 (1)	5 (4)
18	7	Barclays [l] United Kingdom	116 380	96 275	110 000	31.5	31.1	27	187 (77)	95 (24)	90 (51)	2 (2)	17 (6)
19	56	Mitsui Trust & Banking Japan	116 056 [e]	99 399	5 859	5.0 [m]	..	4 [g]	9 (8)	6 (5)	3 (3)	- (-)	2 (2)
20	6	Société Générale France	116 013	97 834	43 655	6.6	12.2	22	89 (52)	38 (15)	41 (30)	10 (7)	9 (5)

Annex table B.1. (continued)

Rank [a] 1986	Rank [a] 1980	Bank and home country	Assets less contra accounts (Millions of dollars)	Total deposits (Millions of dollars)	Number of employees	Share of assets outside home country[b] (Percentage)	Share of deposits outside home country[b] (Percentage)	Share of employment outside home country[b] (Percentage)	Foreign network [c] (Number of entities and host countries/territories) Total	Developed market economies	Developing market economies	Centrally planned economies	Memo: Major offshore centres in developing market economies[d]
21	38	Long-Term Credit Bank of Japan Japan	115 529 [e]	99 124	3 357	..	..	10 [g]	28 (18)	14 (8)	11 (9)	3 (1)	5 (4)
22	41	Bank of Tokyo Japan	111 996 [e]	87 285	8 421	..	63.1 [f]	64 [g]	101 (43)	42 (16)	56 (26)	3 (1)	17 (6)
23	51	Daiwa Bank Japan	102 835 [e]	88 724	9 478	..	27.3 [f]	- [g]	27 (18)	14 (8)	11 (9)	2 (1)	5 (4)
24	2	BankAmerica Corp United States	102 204 [h]	82 205	68 495	35.8	24	19	184 (70)	66 (19)	116 (49)	2 (2)	31 (8)
25	70	Yasuda Trust & Banking Japan	101 342 [e]	86 318	5 108	..	..	1 [g]	14 (10)	6 (4)	7 (5)	1 (1)	4 (3)
26	15	Dresdner Bank Germany, Fed. Rep.	101 185	62 161	36 769	14 [m]	..	..	83 (38)	52 (14)	28 (22)	3 (2)	6 (4)
27	39	Taiyo Kobe Bank Japan	95 663 [e]	75 924	14 130	..	18.6 [f]	3 [g]	26 (19)	14 (9)	10 (9)	2 (1)	3 (2)
28	37	Union Bank of Switzerland Switzerland	93 728	81 079	19 990	53.6	41.4	5	47 (28)	28 (10)	18 (17)	1 (1)	6 (6)
29	21	Compagnie Financière de Paribas France	93 240	60 329	28 000	39	54.9	20	14 (13)	8 (7)	6 (6)	- (-)	2 (2)
30	11	Chase Manhattan Corp. United States	92 147	66 003	47 478	43.2	45	39	107 (73)	44 (25)	61 (46)	2 (2)	12 (7)

Annex table B.1. (continued)

Rank [a]		Bank and home country	Assets less contra accounts	Total deposits	Number of employees	Share of assets outside home country[b]	Share of deposits outside home country[b]	Share of employment outside home country[b]	Foreign network [c] (Number of entities and host countries/territories)				
									Total	Developed market economies	Developing market economies	Centrally planned economies	Memo: Major offshore centres in developing market economies[d]
1986	1980		(Millions of dollars)			(Percentage)							
31	33	Hongkong and Shanghai Bank Hong Kong	90 771	81 837	50 000	50 [o]	50 [o]	76	56 (38)	24 (15)	25 (22)	7 (1)	4 (3)
32	43	Swiss Bank Corp. Switzerland	84 896	65 353	15 775	59	48.9	12	47 (26)	24 (10)	23 (16)	- (-)	12 (6)
33	82	Toyo Trust and Banking Japan	81 889 [e]	71 862	4 944	..	..	..	12 (7)	5 (3)	4 (3)	3 (1)	4 (3)
34	17	Midland Bank United Kingdom	78 397 [p]	67 948	67 534	58.8 [k]	58.2 [k]	9	69 (34)	46 (18)	21 (14)	2 (2)	8 (4)
35	68	Nippon Credit Bank Japan	78 261 [e]	69 135	2 173	..	..	..	13 (11)	6 (5)	7 (6)	- (-)	6 (5)
36	18	Westdeutsche Landesbank Gerozentrale [q] Germany, Fed. Rep.	76 243	70 846	7 483	..	..	4	13 (10)	10 (7)	3 (3)	- (-)	1 (1)
37	25	Commerzbank Germany, Fed. Rep.	75 430	50 695	25 653	..	..	3	58 (32)	34 (14)	22 (16)	2 (2)	6 (5)
38	27	J. P. Morgan United States	74 643	42 960	14 518	47.9	62	32	85 (42)	36 (14)	49 (28)	- (-)	12 (5)
39	62	Kyowa Bank Japan	73 338 [e]	58 797	9 593	..	..	..	21 (12)	13 (6)	7 (5)	1 (1)	4 (3)
40	20	Manufacturers Hanover Corp United States	72 918	45 544	30 316	33.5	45	11	67 (40)	38 (16)	27 (22)	2 (2)	6 (4)

Annex table B.1. (continued)

Rank [a] 1986	Rank [a] 1980	Bank and home country	Assets less contra accounts (Millions of dollars)	Total deposits (Millions of dollars)	Number of employees	Share of assets outside home country[b] (Percentage)	Share of deposits outside home country[b] (Percentage)	Share of employment outside home country[b] (Percentage)	Foreign network [c] (Number of entities and host countries/territories) Total	Developed market economies	Developing market economies	Centrally planned economies	Memo: Major offshore centres in developing market economies[d]
41	28	Banca Nazionale del Lavoro Italy	72 695	38 567	26 154	..	..	..	53 (33)	31 (13)	21 (19)	1 (1)	4 (4)
42	32	Bayerische Vereinsbank Germany, Fed. Rep.	72 125	67 547	13 475	5.4 [f]	..	2	17 (14)	10 (7)	6 (6)	1 (1)	3 (3)
43	67	Shoko Chukin Bank Japan	71 538 [e]	64 571	6 256	..	..	..	2 (2)	2 (2)	- (-)	- (-)	- (-)
44	30	Lloyds Bank [g] United Kingdom	70 523	62 852	71 297	46 [g]	50.8 [g]	30	12 (8)	8 (4)	4 (4)	- (-)	1 (1)
45	23	Royal Bank of Canada Canada	67 743 [t]	60 609	38 186	36.3 [u]	40.7 [u]	13 [u]	121 (47)	48 (13)	72 (33)	1 (1)	30 (8)
46	22	Banco do Brasil Brazil	67 017	26 459	118 281	34 [g]	77.8 [g]	2	81 (44)	36 (17)	44 (26)	1 (1)	10 (6)
47	24	Algemene Bank Nederland Netherlands	66 908	58 571	29 043	33.5	30.8	32	180 (44)	85 (17)	95 (27)	- (-)	15 (7)
48	53	Crédit Suisse Switzerland	63 900	56 812	14 060	50.5	38.0	8	43 (25)	21 (9)	21 (15)	1 (1)	10 (6)
49	34	Rabobank Netherlands	63 727	60 203	31 967	..	..	2	15 (10)	12 (8)	3 (2)	- (-)	3 (2)
50	35	Amsterdam-Rotterdam Bank Netherlands	63 438	58 343	23 489	..	..	8	36 (18)	23 (10)	13 (8)	- (-)	7 (3)

Annex table B.1. (continued)

Sources: For columns 1-3, "The Top 500", *The Banker* (July 1987), employment figures for Bank of Tokyo and Dresdner Bank from company annual reports; for column 4, "The 100 largest U. S. Multinationals", *Forbes*, 27 July 1987, pp. 152-156 for the United States banks, and company annual reports for the other banks; for column 5, "Bank Scoreboard", *Business Week*, 6 April 1987, pp. 83-93 for the United States banks, *Weekly Toyo Keizai*, 18 October 1986, p. 22 for the Japanese banks, and company annual reports for the other banks; for column 6, "A Special Report: Global Finance and Investing", *The Wall Street Journal*, 29 September 1986, p. 20D except Commerzbank, Crédit Suisse, Rabobank and Amsterdam-Rotterdam Bank whose data are from company annual reports; for column 7, *Who Owns What in World Banking 1986* (Financial Times Business Information, London, 1986), *The Bankers' Almanac and Yearbook, 1986* (West Sussex, Thomas Skinner Directories, 1986), and *Diamond's Japan Business Directory 1986* (Tokyo, Diamond Lead Co., June 1986).

a In descending order of 1986 assets less contra accounts reported in "The Top 500", *The Banker (July 1987)*. The 1980 rank is from "The Top 500", *The Banker* (July 1981).
b Subtracted from 100 per cent equals total domestic assets/deposits/employment. Data for the share of employment outside home country are for fiscal year 1985, except Commerzbank, Crédit Suisse, Rabobank and Amsterdam-Rotterdam Bank, whose figures are for 1986.
c 1985 figures. Includes subsidiaries, affiliates, branches, representative offices and agencies. The number of entities in the foreign network of the banks listed may not be complete because branches and representative offices are counted on the basis of countries and/or cities where they are located. Subsidiaries and/or affiliates of foreign subsidiaries are not counted. The number of host countries/territories is in parenthesis.
d The Bahamas, Bahrain, the Cayman Islands, Hong Kong, Lebanon, the Netherlands Antilles, Panama and Singapore. Figures are included in developing market economies.
e Year-end 30 September 1986. In the case of most Japanese banks, the balance sheet items shown are for the half-year to 30 September. Figures are therefore unaudited.
f March 1986.
g March 1985.
h Acquired Aubrey G. Lanston through IBJ Schroder Bank and Trust Co.
i 1984.
j Loan to customers.
k Includes international operations in home country.
l Increase in assets reflects acquisition of a firm of stockbrokers and jobbers.
m Only foreign subsidiaries.
n Decline in assets reflects sale of Banca d'America e d'Italia, consolidation of 45 overseas branches and property sales in Los Angeles and Tokyo.
o More than 50 per cent.
p Decline in assets reflects Midland's sale of Crocker National Bank to Wells Fargo.
q Westdeutsche Landesbank acquired 74.8 per cent of Bank für Kredit und Aussenhandel (Zurich).
r Lloyds bought Continental Bank of Canada.
s 1985.
t Year-end 31 October 1986.
u October 1985.

Annex table B.2. The 20 largest securities and financial firms, 1986

Rank	Name	Home country	Total assets (Millions of dollars)	Total revenue (Millions of dollars)	Net income (Millions of dollars)	Employment (Number)	Foreign affiliates (Number)									
							Developed countries						Developing countries			
							United States	Canada	Japan	Western Europe	Other	Subtotal	Latin America	Africa	Asia	Subtotal	Total
1	American Express Co.	United States	99 476	14 652	1 250	78 747	x	1	-	56	2	59	44	3	16	63	122
2	Salomon Inc.	United States	78 164	6 789	516	7 800	x	2	1	38	2	43	4	2	5	11	54
3	Merril Lynch Co., Inc.	United States	53 013	9 475	454	45 100	x	5	-	18	1	24	15	-	9	24	48
4	First Boston Inc.	United States	48 618	1 309	181	4 493	x	1	-	1	-	2	1	-	-	1	3
5	Goldman Sachs	United States	38 794	..	..	..	x	..	-	-	-	-	-	-	-	-	-
6	Drexel Burnham Lambert Group Inc. [a]	United States	38 583	..	..	..	x	-	-	-	-	-	-	-	-	-	-
7	Morgan Stanley Group Inc.	United States	29 190	2 463	201	5 332	x	4	-	3	-	7	-	-	-	-	7
8	The Bear Stearns Companies Inc. [a]	United States	26 939	1 189	132	5 650	x	-	-	-	-	-	-	-	-	-	- [b]
9	The E. F. Hutton Group Inc.	United States	25 921	3 504	90	18 910	x	-	-	3	-	3	-	-	-	-	3
10	Nippon Shimpan	Japan	24 064	1 480	61	6 044	-	-	x	-	-	-	-	-	1	-	1

Annex table B.2. (continued)

Rank	Name	Home country	Total assets (Millions of dollars)	Total revenue (Millions of dollars)	Net income (Millions of dollars)	Employment (Number)	Foreign affiliates (Number): Developed countries: United States	Canada	Japan	Western Europe	Other	Subtotal	Developing countries: Latin America	Africa	Asia	Subtotal	Total
11	Orient Finance	Japan	21 919	1 751	74	6 321	-	-	x	-	-	-	-	-	2	-	2
12	Compagnie Bancaire S.A.	France	21 590	..	..	7 000	-	-	1	6	-	7	-	-	-	-	7
13	Daiwa Securities Co. Ltd.	Japan	20 253	3 874	1 700	7 419	2	-	x	10	-	12	1	-	2	3	15
14	Nomura Securities Co. Ltd.	Japan	19 053	5 741	1 383	10 471	2	-	x	6	-	8	2	-	11	13	21
15	Japan Securities Finance Co. Ltd.	Japan	17 245	1 642	18	319	-	-	x	-	-	-	-	-	-	-	-
16	Trilon Financial Corp.	Canada	15 733	2 180	93	..	15	x	-	72	-	87	12	-	7	19	106
17	Paine Webber Group Inc.	United States	14 726	2 385	72	12 050	x	-	-	2	-	2	-	-	-	-	2
18	Nikko Securities Co. Ltd.	Japan	14 358	3 077	574	8 059	1	-	x	6	1	8	-	-	6	-	14
19	Orient Leasing Co. Ltd.	Japan	13 825	1 979	62	1 273	2	-	x	1	-	3	3	-	11	14	17
20	Yamaichi Securities Co. Ltd.	Japan	13 317	2 807	518	7 410	1	1	x	7	-	9	1	-	6	7	16

Source: UNCTC, based on various sources, including own inquiries.

a Parent company is Bruxelles Lambert S.A., Belgium.

b The company has 15 branches world-wide.

Annex table B.3. The 30 largest insurance companies, 1976, 1980 and 1986

Rank	Name	Home country	Year	Total revenue (Millions of dollars)	Net income (Millions of dollars)	Assets (Millions of dollars)	Employment (Number)	Foreign affiliates (Number): Developed countries: United States	Canada	Japan	Western Europe	Other	Subtotal	Developing countries: Latin America	Africa	Asia	Subtotal	Total	
1	Prudential of America	United States	1986	23 602	308.0	103 317	62 400	x	7	4	43	1	55	5	-	7	12	67	a
			1980	12 231	444.3	59 778	62 500	x	21		1	-	4	2	-	-	2	6	a
			1976	8 533	13.8	43 701	61 700	x	2	-	1	-	3	1	-	-	1	4	a
2	Nippon Life Insurance Co.	Japan	1986	21 777	2 735.0	70 171	90 496	3	-	x	2	-	5	1	-	-	1	6	
			1980	9 715	1 716.0	34 990	70 665	1	-	x	-	-	1	-	-	-	-	1	
			1976	4 231	766.5	..	68 356	..	..	..	..	..	..	..	..	..	..	..	
3	Metropolitan Life	United States	1986	18 855	236.0	81 581	35 900	x	-	-	2	-	2	-	2	-	-	4	
			1980	9 460	479.1	48 310	48 000	x	2	-	1	-	3	-	-	-	-	3	
			1976	7 576	142.2	37 502	53 000	x	2	-	1	-	3	-	-	-	-	3	
4	CIGNA	United States	1986	17 064	817.3	50 016	50 100	x	3	1	38	8	50	38	5	5	48	98	
			1980	10 015	595.3	28 651	..	..	..	..	..	..	..	..	..	..	..	..	
			1976	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	
5	Zenkyoren	Japan	1986	14 004	..	62 443	7 900	1	-	x	1	-	2	-	-	-	-	2	
			1980	7 766	89.3	30 776	..	1	-	x	1	-	2	-	-	-	-	2	
			1976	2 056	22.3	..	..	..	..	..	..	..	..	..	..	..	..	..	
6	Aetna Life	United States	1986	13 637	224.0	42 957	25 700	x	11	-	27	12	50	16	-	1	17	67	b
			1980	6 804	185.6	22 271	17 400	x	4	-	-	8	12	2	-	-	2	14	
			1976	4 166	111.2	12 061	16 300	..	..	..	..	..	..	..	..	..	..	..	
7	Dai-ichi Mutual Life Insurance Co.	Japan	1986	12 791	1 732.0	46 483	68 082	2	1	x	3	1	7	1	-	1	2	9	
			1980	7 896	24.0	..	..	..	..	..	..	..	..	..	..	..	..	..	
			1976	2 626	..	7 748	52 803	..	..	..	..	..	..	..	..	..	..	..	
8	Sumitomo Life Insurance Co.	Japan	1986	11 211	1 401.0	38 910	71 821	2	-	x	2	-	4	1	-	1	2	6	
			1980	5 117	887.2	15 676	..	..	..	..	..	..	..	..	..	..	..	1	
			1976	..	398.7	..	52 224	..	..	..	..	..	..	..	..	..	..	..	
9	American International Group	United States	1986	9 704	795.8	21 023	28 000	x	1	-	6	2	9	16	-	12	28	37	
			1980	7 301	368.4	9 711	..	x	1	1	4	3	9	11	2	1	14	23	
			1976	..	..	..	..	x	1	1	3	4	9	9	2	1	12	21	
10	Allianz Worldwide	Germany, Federal Republic of	1986	8 850	..	9 411 c	28 300	14	-	-	14	4	32	2	-	1	3	35	
			1980	6 386	112.1	5 909	25 676	7	-	-	8	2	17	1	1	2	-	19	
			1976	2 149	34.6	3 654	15 471	2	-	-	7	-	9	1	1	-	2	11	

Annex table B.3. (continued)

Rank	Name	Home country	Year	Total revenue	Net income	Assets	Employment	Foreign affiliates (Number)										
								Developed countries						Developing countries				
				(Millions of dollars)			(Number)	United States	Canada	Japan	Western Europe	Other	Subtotal	Latin America	Africa	Asia	Subtotal	Total
11	Equitable Life Insurance [d]	United States	1986	8 234	332.0	48 578	25 000	x	-	-	-	-	-	-	-	-	-	-
			1980	6 122	33.3	34 600	26 200	-	x	-	-	-	-	-	-	-	-	-
			1976	4 882	61.1	22 430	23 000	x	-	-	-	-	-	-	-	-	-	-
12	Meiji Mutual Life Insurance Co.	Japan	1986	7 461	931.0	25 424	46 532	3	-	x	1	-	4	1	-	-	1	5
			1980	4 226	..	12 390	41 677	1	-	x	-	-	1	-	-	-	-	1
			1976	1 663	300.9	..	52 030	1	-	x	-	-	1	-	-	-	-	1
13	Trans-America Corporation	United States	1986	7 120	267.5	16 182	14 800	x	6	-	17	3	26	6	-	1	7	33
			1980	4 156	244.9	9 042	..	x	8	-	8	-	16	2	-	-	2	18
			1976	3 877	170.6	8 721	..	x	9	-	13	1	23	4	-	-	4	27
14	Zurich Insurance Group	Switzerland	1986	6 704	78.0 [b]	17 156	23 800	11	1	-	21	6	39	4	2	1	7	46
			1980	4 020	42.4	9 203	20 000	6	1	-	19	3	29	-	2	-	2	31
			1976	1 132	17.3	4 634	..	4	1	-	15	2	22	-	2	-	2	24
15	Prudential Corperation Plc.	United Kingdom	1986	6 516	173.0	38 023	29 900	20	12	-	11	18	61	5	2	2	9	70
			1980	3 476	98.9	17 352	23 002	1	7	-	4	12	24	6	1	3	10	34
			1976	..	..	..	..	2	5	-	7	10	24	6	-	-	6	30
16	Assicurazioni Generali Group	Italy	1986	6 435	269.0	16 688	18 500	6	-	-	52	4	62	13	-	1	14	76
			1980	3 480	67.4	..	7 300	1	-	-	20	2	23	4	-	1	5	28
			1976	2 233	26.8	2 120	8 998	-	-	-	9	2	11	8	-	1	9	20
17	Nationale-Nederlanden	Netherland	1986	6 423	259.0	31 877	22 500	33	3	-	49	8	93	8	-	3	11	104 [e]
			1980	3 675	179.0	17 405	15 884	8	2	-	16	5	31	2	-	1	3	34 [e]
			1976	..	71.6	6 980	10 783	3	3	-	16	6	28	5	-	-	5	33 [e]
18	Travelers Life Insurance Co.	United States	1986	6 396	239.0	27 210	..	x	-	-	-	-	-	4	-	-	4	4
			1980	4 890	168.6	13 351	40 900	..	..	..	..	..	..	..	..	..	..	..
			1976	3 095	89.4	8 459	37 800	..	..	..	..	..	..	..	..	..	..	..
19	UAP-Union des Assurances de Paris	France	1986	6 371	314.0	15 673	16 700	4	2	-	16	-	22	2	9	1	12	34
			1980	1 456	85.7	..	..	1	1	-	6	-	8	2	6	1	9	17
			1976	1 312	..	2 139	21 000	1	-	-	5	-	6	2	6	1	9	15
20	Asahi Mutual Life Insurance Co.	Japan	1986	6 229	827.0	22 775	41 571	2	-	x	1	1	4	-	-	-	-	4
			1980	3 171	582.1	10 380	33 009	1	-	x	-	-	1	-	-	-	-	1
			1976	1 643	286.7	..	33 002	..	..	..	..	..	..	..	..	..	..	..

Annex table B.3. (continued)

Rank	Name	Home country	Year	Total revenue (Millions of dollars)	Net income (Millions of dollars)	Assets (Millions of dollars)	Employment (Number)	Foreign affiliates (Number): Developed countries: United States	Canada	Japan	Western Europe	Other	Subtotal	Developing countries: Latin America	Africa	Asia	Subtotal	Total
21	Royal Insurance Plc.	United Kingdom	1986	6 146	365.0	17 253	22 000	36	5	-	18	23	82	12	4	3	19	101
			1980	3 372	165.0	8 405	22 000	11	6	-	12	14	43	12	2	3	17	60
			1976	2 301	90.8	4 447	21 255	11	9	-	9	14	43	12	2	2	16	59
22	Continental Corporation	United States	1986	6 002	449.6	13 623	17 000	x	5	-	16	-	21	17	1	13	31	52
			1980	3 315	269.2	8 216	..	x	8	1	25	4	38	19	1	11	31	68
			1976	..	..	..	..	x	8	1	18	4	31	14	1	13	28	59
23	Lincoln National Corporation	United States	1986	5 999	284.4	16 244	14 000	x	-	-	11	-	11	3	-	-	3	14
			1980	2 668	175.7	8 470	..	x	1	-	1	-	2	-	-	-	-	2
			1976	..	..	..	..	x	1	-	-	-	1	-	-	-	-	1
24	New York Life	United States	1986	5 890	22.0	29 794	18 300	x	-	-	-	-	-	-	-	-	-	-
			1980	4 028	82.3	19 725	19 600	x	-	-	-	-	-	-	-	-	-	-
			1976	2 901	55.0	14 859	19 300	x	-	-	-	-	-	-	-	-	-	-
25	John Hancock Mutual Life	United States	1986	5 580	203.0	27 213	18 300	x	2	-	3	-	5	3	-	-	3	8
			1980	3 668	127.8	18 761	20 300	x	1	-	2	-	3	4	-	-	4	7
			1976	2 981	47.4	13 996	20 100	..	..	..	..	..	..	..	..	..	..	..
26	Teachers Insurance & Annuity	United States	1986	5 433	182.0	27 887	2 800	x	-	-	-	-	-	-	-	-	-	-
			1980	2 128	65.1	9 748	..	x	-	-	-	-	-	-	-	-	-	-
			1976	1 079	35.3	5 184	1 300	x	-	-	-	-	-	-	-	-	-	-
27	Mitsui Mutual Life Insurance Co.	Japan	1986	4 942	645.0	17 072	31 024	1	-	x	-	-	1	-	-	-	-	1
			1980	2 654	414.7	7 417	..	..	..	..	..	..	..	..	..	..	..	..
			1976	1 159	181.5	..	28 514	..	..	..	..	..	..	..	..	..	..	..
28	Winterthur Group	Switzerland	1986	4 545	96.0	15 337	13 200	-	3	1	8	-	12	4	-	-	4	16
			1980	2 528	40.9	7 211	9 860	1	2	-	8	-	11	1	-	-	1	12
			1976	1 060	19.2	1 474	8 216	1	-	-	7	-	8	1	-	-	1	9
29	AGF-Insurances Générales de France	France	1986	4 533	231.0	11 979	12 200	2	1	-	17	2	22	6	6	-	12	34
			1980	2 144	33.8	3 765	13 500	-	1	-	13	1	15	7	7	1	15	30
			1976	1 412	15.2	3 104	7 319	-	-	-	1	1	2	-	-	1	1	3
30	Principal Mutual Life	United States	1986	4 504	65.0	16 994	9 700	x	-	-	-	-	-	-	-	-	-	-
			1980	629	29.4	1 320	6 858	x	-	-	-	-	-	-	-	-	-	-
			1976	477	21.9	960	8 976	x	-	-	-	-	-	-	-	-	-	-

Source: UNCTC, based on various sources, including own inquiries.

a Data from Nationale Nederlander differ significantly from comparable public sources. The company reports a total of 161 affiliates in 1986, 73 affiliates in 1980, and 45 affiliates in 1976.

b The company reports that, in addition to its foreign affiliates, it has insurance facilities in more than 70 countries through its association with the Assicurazioni Generali Group.

c Data are for 1985.

d Parent company is American General Corporation.

e Data from Prudential of America differ significantly from comparable public sources. The company reports a total of 54 affiliates in 1986, 5 affiliates in 1980, and 3 affiliates in 1976.

Annex table B.4. The 15 largest specialized professional re-insurers, 1976, 1980, 1985

Rank	Name	Home country	Year	Total revenue (Millions of dollars)	Net income (Millions of dollars)	Assets (Millions of dollars)	Employment (Thousands)	Foreign affiliates (Number): Developed countries: United States	Canada	Japan	Western Europe	Other	Subtotal	Developing countries: Latin America	Africa	Asia	Subtotal	Total
1	Swiss Re Group	Switzerland	1985	4 219	67.8	8 929	3.0	11	2	-	22	2	37	4	-	3	7	44
			1980	4 506	47.8	6 231	2.6	6	2	-	9	2	19	2	-	3	5	24
			1976	2 460	36.3	3 527	2.0	2	2	1	8	2	15	-	-	1	1	16
2	Munich Re	Germany, Federal Republic of	1985	3 687	19.4	9 958	1.6	2	3	-	5	3	13	2	-	2	4	17
			1980	4 035	14.6	7 348	1.3	2	2	-	8	3	15	3	-	2	5	20
			1976	2 213 [a]	7.4	3 492	1.1	1	1	-	3	2	7	2	-	1	3	10
3	General Re	United States	1985	1 597	12.8	4 520	2.3	x	2	-	8	2	12	3	-	-	3	15
			1980	807	162.1	2 682	1.2	x	-	-	9 [a]	1	10	1	-	-	1	11
			1976	555	46.1	1 370	2.2	x	3	1	5	1	10	-	-	-	-	10
4	Employers Re [c]	United States	1985	763	134.3	2 175	0.5	[b] x	-	-	-	-	-	-	-	-	-	-
			1980	431	39.2	1 156	0.3	x	-	-	-	-	-	-	-	-	-	-
			1976	254	14.1	517	0.3	x	-	-	-	-	-	-	-	-	-	-
5	American Re [d]	United States	1985	685	14.6	1 907	0.7	x	-	-	21	-	21	4	-	-	4	25
			1980	445	46.1	1 290	0.6	x	1	-	1	1	1	3	-	-	3	4
			1976	336	20.7	701	0.4	x	1	-	1	2	4	-	-	-	-	4
6	Prudential Re [e]	United States	1985	771	115.0	2 036	0.7	7	4	-	15	2	28	3	-	-	3	31
			1980	152	4.1	1 330	0.5	-	4	-	2	1	7	1	-	-	1	8
			1976	157	5.2	314	0.2	..	..	..	..	..	..	..	..	..	..	..
7	Gerling Konzern Globale R/eck AG. [f]	Germany, Federal Republic of	1986	467	104.0	1 551	6.0	-	-	-	3	-	3	-	-	-	-	3
			1980	788	3.2	1 486	0.2 [g]	-	-	-	1	-	1	-	-	-	-	1
			1976	493	8.0	331	7.7	-	-	-	1	-	1	-	-	-	-	1
8	Cologne Re [h]	Germany, Federal Republic of	1985	454	4.0 [d]	1 665	0.4 [g]	2	-	-	4	2	8	1	-	-	1	9
			1980	602	4.6 [d]	1 241	..	2	-	-	2	2	6	1	-	-	1	7
			1976	307	8.2 [d]	..	0.2 [g]	1	-	-	2	1	4	-	-	-	-	4
9	Frankona Re [i]	Germany, Federal Republic of	1985	393	2.4	1 034	0.3	2	-	-	1	-	3	-	-	-	-	3
			1980	505	4.0	922	0.3	1	-	-	-	-	1	-	-	-	-	1
			1976	220	1.5	..	0.2	..	..	..	..	..	..	..	..	..	..	..
10	Toa Fire Marine Re	Japan	1985	391	6.1	817	..	1	-	x	1	-	2	-	-	1	1	3
			1980	286	4.5	595	..	..	..	..	..	..	..	..	..	..	..	..
			1976	147	2.4	..	0.2	..	..	..	..	..	..	..	..	..	..	..

Annex table B.4. (continued)

Rank	Name	Home country	Year	Total revenue (Millions of dollars)	Net income (Millions of dollars)	Assets (Millions of dollars)	Employment (Number)	Foreign affiliates (Number): Developed countries: United States	Canada	Japan	Western Europe	Other	Subtotal	Developing countries: Latin America	Africa	Asia	Subtotal	Total
11	Hannover Re [j]	Germany, Federal Republic of	1985	290	1.5	983	0.2 [g]	2	-	-	2	1	5	1	-	-	1	6
			1980	261	0.2	493	0.1	..	..	..	..	..	..	..	..	..	..	..
			1976	174 [k]	3.4	..	0.1	[g]	..	..	..	..	..	..	..	..	..	..
12	Mercantime General Re Group [l]	United Kingdom	1985	374	24.1	960	..	3	1	-	-	5	9	1	-	-	1	10
			1980	568	16.5	794	1.1	1	2	-	-	6	9	1	-	-	1	10
			1976	259	2.6	579	1.0	1	1	-	-	3	5	-	-	-	-	5
13	Kemper Re [m]	United States	1985	372	10.0	888	..	x	1	-	2	1	4	1	-	-	1	5
			1980	160	19.1	413	0.2	x	-	-	1	1	2	-	-	-	-	2
			1976	81	5.9	162	..	x	-	-	1	1	2	-	-	-	-	2
14	Netherlands Reinsurance Group [n]	Netherlands	1985	309	112.3	1 087	0.2 [g]	4	-	-	3	3	14	4	-	-	4	18
			1980	339	58.3	811	0.2 [g]	2	-	-	3	1	6	2	-	1	3	9
			1976	179 [a]	2.7	698	10.8	2	-	-	3	1	6	2	-	1	3	9
15	SCOR Group [o]	France	1985	309	..	..	0.7 [g]	1	5	-	2	1	9	1	-	-	1	10
			1980	702	11.8	1 047	..	2	4	-	2	-	8	1	-	-	1	9
			1976	459 [a]	7.0	..	0.3 [g]	2	4	-	2	-	8	1	-	-	1	9

Source: UNCTC, based on various sources, including own inquiries.

a Revenues are for gross premium earnings and investment income.
b 1986.
c Parent was General Electric Co. in 1985. It was wholly owned by Getty Oil Co. in 1980 and publicly held in 1976. The company was not a TNC in any year.
d Parent was Aetna Life and Casualty Co. in 1985 and 1980.
e Parent is Prudential Insurance Co. of America.
f Parent was Gerling-Konzern in 1986, and Friedrich Flick Industrieverwaltung KG. a.A. in 1980.
g Not fully consolidated. Data are parent company only.
h Parent was Bankhaus Sal. Oppenheim Jr. & Cie in 1985 and 1980, and Münchner Versicherung AG in 1976.
i Parent was Friedrich Flick Industrieverwaltung KG. a.A. in 1980 and Gerling Konzern in 1976.
j Parent was Haftpflichtverband der Deutschen Industrie, Versicherungsverein auf Gegenseitigkeit in 1985 and 1980.
k 1977.
l Parent was Prudential Corp. Plc. in 1985 and 1980.
m Parent is Kemper Corp., a major shareholder of which is Lumbermens Mutual Casualty Co.
n Parent was Nationale-Nederlanden, N.V. in 1976.
o Parent was Caisse Centrale de Reassurance in 1985 and 1980.

Annex table B.5. The 20 largest trading companies, 1976, 1980, 1986

Rank	Name	Home country	Year	Total revenue (Millions of dollars)	Net income (Millions of dollars)	Assets (Millions of dollars)	Employment (Number)	Foreign affiliates (Number): Developed countries: United States	Canada	Japan	Western Europe	Other	Subtotal	Developing countries: Latin America	Africa	Asia	Subtotal	Total
1	Mitsui & Co. Ltd.	Japan	1986	81 785	53.0	30 036	11 400	55	13	x	38	21	127	58	12	115	185	312
			1980	65 845	80.5	24 325	10 649	47	9	x	42	18	116	52	9	127	188	304
			1976	33 400	28.6	8 888	11 495	9	6	x	27	3	45	12	2	12	26	71
2	Mitsubishi Corporation	Japan	1986	77 324	146.0	32 142	14 100	40	14	x	30	13	97	36	10	95	141	238
			1980	65 426	181.2	24 175	13 400	12	5	x	12	6	35	26	11	23	60	95
			1976	3 205 a	..	..	10 390	14	6	x	25	10	55	24	7	31	62	117
3	C. Itoh & Co. Ltd.	Japan	1986	71 916	84.0	26 702	10 000	35	4	x	27	15	81	39	4	76	119	200
			1980	49 356	55.4	17 056	10 000	13	10	x	55	12	90	30	4	55	89	179
			1976	2 784 a	1.1	9 213	7 944	13	9	x	17	11	50	29	4	50	83	133
4	Sumitomo Corporation	Japan	1986	65 110	149.0	16 433	11 800	36	9	x	25	16	86	19	27	61	107	193
			1980	43 058	93.9	11 631	7 700	11	5	x	9	6	31	9	1	18	28	59
			1976	..	..	..	..	5	3	x	7	5	20	5	1	14	20	40
5	Marubeni Corporation.	Japan	1986	64 738	67.0	28 861	10 600	38	11	x	27	18	94	46	8	76	130	224
			1980	45 429	29.6	16 885	7 794	10	10	x	20	14	54	26	2	27	55	109
			1976	2 814 a	..	..	8 436	9	9	x	17	11	46	24	2	16	42	88
6	Nissho Iwai Corporation.	Japan	1986	42 900	35.0	16 455	7 300	20	5	x	12	11	48	29	6	52	87	135
			1980	29 041	0.7	8 887	6 400	8	2	x	13	8	31	25	8	49	82	113
			1976	1 349 a	..	..	7 304	3	2	x	10	8	23	22	6	45	73	96
7	Tomen Ltd.	Japan	1986	23 167	12.0	8 207	5 000	15	1	x	6	9	31	24	6	62	92	123
			1980	14 478	7.6	5 149	3 300	14	1	x	5	5	25	10	5	27	42	67
			1976	852 a	..	..	4 094	5	2	x	8	5	20	12	1	41	54	74
8	Nichimen Corporation	Japan	1986	21 941	20.0	8 691	3 100	4	-	x	1	1	6	4	5	22	31	37
			1980	10 099	6.8	6 095	3 400	1	-	x	3	2	6	-	-	3	3	9
			1976	..	..	..	..	-	-	x	2	1	3	-	-	-	-	3
9	Kanematsu Gosho Co. Ltd.	Japan	1986	14 966	0.7	4 173	4 000	14	2	x	5	10	31	10	3	35	48	79
			1980	11 013	0.3	3 924	3 400	10	1	x	3	8	22	7	1	27	35	57
			1976	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
10	Kawasho Corporation.	Japan	1986	7 870	3.0	3 838	1 700	1	1	x	1	1	4	3	1	10	14	18
			1980	4 044	3.9	..	1 479	1	1	x	1	-	3	1	-	5	6	9
			1976	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

Annex table B.5. (continued)

Rank	Name	Home country	Year	Total revenue (Millions of dollars)	Net income (Millions of dollars)	Assets (Millions of dollars)	Employment (Number)	Foreign affiliates (Number): Developed countries: United States	Canada	Japan	Western Europe	Other	Subtotal	Developing countries: Latin America	Africa	Asia	Subtotal	Total
11	Toyoda Tsusho Kaisha Ltd.	Japan	1986	6 680	25.0	2 212	1 700	4	-	x	2	2	8	11	-	34	45	53
			1980	4 607	21.8	1 194	1 700	1	-	-	2	1	4	4	-	21	25	29
			1976	2 009	..	..	1 495	1	-	-	2	1	4	4	-	19	23	27
12	Samsung Corp.	Korea, Republic of	1986	4 850	8.0	342	4 243	1	-	1	2	1	5	-	-	1	1	6
			1980	1 523	..	319	..	1	-	1	1	2	5	-	-	-	-	5
			1976	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
13	Franz Haniel & Cie GmbH	Germany, Federal Republic of	1986	4 797	34.0	1 449	18 100	24	-	2	40	4	70	5	2	3	10	80
			1980	3 793	36.9	972	5 471 [a]	2	-	-	5	-	7	2	-	-	2	9
			1976	1 072	4.4	319	5 508 [a]	-	-	-	5	2	7	-	-	-	-	7
14	Doewoo Corp.	Korea, Republic of	1986	4 782	41.0	2 593	31 750	3	1	1	3	-	8	1	2	2	5	13
			1980	1 542	..	325	..	1	-	1	2	-	4	-	-	-	-	4
			1976	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
15	Kesko Group	Finland	1986	4 490	13.0	1 978	8 100	..	..	..	..	..	..	..	..	..	..	..
			1980	3 169	8.3	1 057	6 700	..	..	..	..	..	..	..	..	..	..	..
			1976	1 713	3	475	5 688	..	..	..	..	..	..	..	..	..	..	..
16	Hyundai Corporation	Korea, Republic of	1986	4 465	6.0	261	1 100	3	-	2	1	-	6	1	-	7	1	7
			1980	1 939	5.9	164	745	..	..	..	..	..	..	..	..	..	..	..
			1976	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
17	Toshoku Ltd.	Japan	1986	4 156	3.0	1 913	1 321	2	1	x	2	2	7	1	-	2	3	10
			1980	2 665	9.4	1 381	1 207	1	1	x	5	1	8	1	-	6	7	15
			1976	3 001	..	..	1 219	1	1	x	2	1	5	1	-	1	2	7
18	Lonrho Group	United Kingdom	1986	3 894	94.0	3 262	115 600	5	-	-	44	85	134	21	228	5	254	388
			1980	4 059	104.7	2 023	140 000	3	1	1	55	148	208	19	225	5	249	457
			1976	1 816	69.7	649	..	1	1	1	40	111	154	6	221	2	229	383
19	Elders IXL Ltd. [b]	Australia	1986	3 746	142.0	3 247	26 800	6	-	2	69	58	135	8	6	46	60	195
			1980	2 800	38.6	1 194	15 000	-	-	1	2	3	6	-	-	2	2	8
			1976 [c]	1 087	9.8	565	4 990 [a]	-	-	-	1	-	1	-	-	1	1	2
20	Itoman Co.	Japan	1986	3 363	10.0	4 369	1 400	1	3	x	2	6	12	2	-	4	6	18
			1980	1 442	..	1 484	779	-	-	x	1	2	3	-	-	-	-	3
			1976	978	..	..	1 231	-	-	x	1	1	2	-	-	-	-	2

Source: UNCTC, based on various sources, including own inquiries.

a For parent company only.

b The company was listed as Elder Smith Glosbrough Mort. Ltd. in 1981 and 1977. IXL was not listed. Data for 1980 and 1976 are for the former only.

c 1975.

Annex table B.6. The 30 largest retailing companies and supermarkets by revenue, 1976, 1980, 1986

Rank	Name	Home country	Year	Total revenue (Millions of dollars)	Net income (Millions of dollars)	Assets (Millions of dollars)	Employment (Number)	Foreign affiliates (Number): Developed countries: United States	Canada	Japan	Western Europe	Other	Subtotal	Developing countries: Latin America	Africa	Asia	Subtotal	Total
1	Sears Roebuck Co.	United States	1986	44 282	1 351.3	65 995	485 500	x	3	2	53	1	59	10	-	6	16	75
			1980	25 195	606.0	28 054	390 000	x	3	-	10	-	13	7	-	-	7	20
			1976	14 950	694.5	12 711	394 600	x	3	-	7	-	10	7	-	-	7	17
2	K Mart Corp.	United States	1986	24 246	582.0	10 578	320 000	x	1	-	-	1	2	1	-	1	2	4
			1980	14 204	260.5	6 102	256 000	x	1	-	-	1	2	-	-	-	-	2
			1976	8 484	266.6	2 866	191 000	x	1	-	-	1	2	-	-	-	-	2
3	Safeway Stores Inc.	United States	1986	20 311	14.3	7 444	172 400	x	1	-	1	-	2	-	-	-	-	2
			1980	15 103	119.4	3 339	150 000	x	1	-	7	2	10	-	-	-	-	10
			1976	10 443	105.6	1 709	133 000	x	4	-	5	2	11	-	-	-	-	11
4	Kroger Co.	United States	1986	18 386	51.5	4 076	173 900	x	-	-	-	-	-	-	-	-	-	-
			1980	10 317	94.4	1 998	124 600	x	-	-	-	-	-	-	-	-	-	-
			1976	6 091	48.3	1 234	56 700	x	-	-	-	-	-	-	-	-	-	-
5	J. C. Penney Co. Inc.	United States	1986	14 740	478.0	11 188	176 000	x	1	-	9	-	10	6	-	-	6	16
			1980	11 353	233.0	5 863	..	x	1	-	7	-	8	4	-	-	4	12
			1976	8 354	228.1	3 484	188 700	x	1	-	5	-	6	2	-	-	2	8
6	American Stores Co.	United States	1986	14 021	144.5	3 590	129 000	x	-	-	-	-	-	-	-	-	-	-
			1980	6 420	51.6	1 293	63 000	x	-	-	-	-	-	-	-	-	-	-
			1976	3 207	32.0	514	..	x	-	-	-	-	-	-	-	-	-	-
7	Tengelmann Group	Germany, Federal Republic of	1986	13 000	..	..	37 600	24	6	-	-	-	30	1	-	-	1	31
			1980	1 109 [a]	43.0	418	8 565	2	-	-	-	-	-	2	-	-	-	2
			1976	648 [a]	..	138	8 800	..	..	..	..	..	..	..	..	..	..	..
8	Wal-Mart Stores Inc.	United States	1986	11 909	450.1	4 049	141 000	x	-	-	-	-	-	-	-	-	-	-
			1980	1 643	55.6	592	27 000	x	-	-	-	-	-	-	-	-	-	-
			1976	..	..	..	..	x	-	-	-	-	-	-	-	-	-	-
9	Southland Corporation	United States	1986	11 082	200.4	3 421	67 200	x	1	-	4	-	5	3	-	-	3	8
			1980	4 759	77.7	1 495	44 600	x	1	-	2	-	3	3	-	-	3	3
			1976	2 116	40.3	626	31 000	x	1	-	1	-	2	3	-	-	3	5
10	Federated Department Stores Inc.	United States	1986	10 512	287.6	5 688	133 000	x	-	-	-	-	-	-	-	-	-	-
			1980	6 301	277.7	3 576	116 600	x	-	-	-	-	-	-	-	-	-	-
			1976	4 447	168.1	2 269	94 200	x	-	-	-	-	-	-	-	-	-	-

Annex table B.6. (Continued)

Rank	Name	Home country	Year	Total revenue (Millions of dollars)	Net income (Millions of dollars)	Assets (Millions of dollars)	Employment (Number)	Foreign affiliates (Number): Developed countries: United States	Canada	Japan	Western Europe	Other	Subtotal	Developing countries: Latin America	Africa	Asia	Subtotal	Total
11	May Department Stores Co.	United States	1986	10 376	381.0	6 209	152 000	x	-	-	3	-	3	-	-	3	3	6
			1980	3 173	116.9	2 259	66 000	x	-	-	3	-	3	-	-	1	1	4
			1976	2 133	69.4	1 456	31 000	x	-	-	4	-	4	-	-	1	1	5
12	Daiei Inc.	Japan	1986	10 060	18.0	5 456	14 800	1	-	x	1	-	2	-	-	1	1	3
			1980	5 104	45.2	3 615	22 500	1	-	x	1	-	2	-	-	1	1	3
			1976	3 642	..	..	..	..	..	..	..	..	..	..	..	..	..	..
13	Dayton Hudson Corp.	United States	1986	9 774	310.0	5 282	126 000	x	-	-	-	-	-	1	-	-	1	1
			1980	4 034	146.7	2 155	70 000	..	..	..	..	..	..	..	..	..	..	..
			1976	1 899	65.7	1 058	27 000	..	..	..	..	..	..	..	..	..	..	..
14	Lucky Stores Inc.	United States	1986	8 776	225.9	1 552	44 000	x	-	-	-	-	-	-	-	-	-	-
			1980	6 469	90.5	1 401	65 000	x	-	-	-	-	-	-	-	-	-	-
			1976	3 483	46.1	670	45 000	x	-	-	-	-	-	-	-	-	-	-
15	Winn-Dixie Stores Inc.	United States	1986	8 225	116.4	1 355	76 900	x	-	-	-	-	-	3	-	-	3	3
			1980	5 389	92.0	904	60 700	x	-	-	-	-	-	3	-	-	3	3
			1976	3 266	63.0	510	41 900	x	-	-	-	-	-	3	-	-	3	3
16	Ito-Yokado Co. Ltd.	Japan	1986	7 903	214.0	4 150	26 700	1	-	x	-	-	1	-	-	-	-	1
			1980	3 400	66.4	1 808	16 000	1	-	x	-	-	1	-	-	-	-	1
			1976	1 092	20.4	523	..	..	..	..	..	..	..	..	..	..	..	..
17	Carrefour Group	France	1986	7 432	94.0	2 351	37 600	3	-	-	2	-	5	-	-	-	-	5
			1980	4 848	81.0	1 538	23 000 [b]	-	-	-	10	-	10	1	-	-	1	11
			1976	2 019	27.6	709	10 000	-	-	-	5	-	5	1	-	-	1	6
18	Coles Myer Ltd.	Australia	1986	7 227	66.0	2 174	139 200	-	-	-	1	-	1	3	-	3	6	7
			1980	4 478	101.4	1 728	95 500	-	-	-	1	-	1	-	-	1	-	2
			1976	697	..	989	35 348	-	-	-	1	-	1	-	-	-	-	1
19	Vendex International Group	Netherlands	1986	6 615	88.3	1 664	60 000	-	-	-	18	-	21	2	-	1	3	24
			1980	4 879	48.3	2 027	..	..	..	..	..	..	..	..	..	..	..	..
			1976	..	..	2 093	..	..	..	..	..	..	..	..	..	..	..	..
20	Great Atlantic & Pacific Tea Co.	United States	1986	6 615	88.3	1 664	60 000	x	6	-	-	-	6	1	-	-	1	7
			1980	6 684	3.8	1 231	58 000	x	2	-	-	-	2	1	-	-	1	3
			1976	6 538	4.3	986	92 900	x	4	-	-	-	4	1	-	-	1	5

Annex table B.6. (Concluded)

Rank	Name	Home country	Year	Total revenue (Millions of dollars)	Net income (Millions of dollars)	Assets (Millions of dollars)	Employment (Number)	Foreign affiliates (Number): Developed countries: United States	Canada	Japan	Western Europe	Other	Subtotal	Developing countries: Latin America	Africa	Asia	Subtotal	Total
21	F. W. Woolworth Co.	United States	1986	6 501	214.0	2 850	120 500	x	7	-	6	3	16	1	-	-	1	17
			1980	7 218	160.9	3 172	196 500	x	4	-	14	4	22	4	1	2	7	29
			1976	5 152	108.2	..	200 000	x	10	-	7	4	21	4	1	-	5	26
22	Marks & Spencer Plc.	United Kingdom	1986	6 299	412.0	3 740	45 100	-	2	-	8	-	14	-	-	1	1	15
			1980	4 357	231.5	2 260	44 646	-	1	-	5	-	6	-	-	-	-	6
			1976	2 048	207.3	..	40 864	-	6	-	3	-	9	-	-	-	-	9
23	Seiyu Ltd.	Japan	1986	5 919	32.0	4 201	24 400	4	-	x	-	1	5	-	-	1	1	6
			1980	3 172	18.9	1 982	18 100	..	..	..	..	..	..	..	..	..	..	..
			1976	185 [a]	..	..	8 037	..	..	..	..	..	..	..	..	..	..	..
24	Nichii Co. Ltd.	Japan	1986	5 853	54.0	3 767	32 600	1	-	x	-	-	1	-	-	1	1	2
			1980	2 302	19.6	1 894	29 000	..	..	..	..	..	..	..	..	..	..	..
			1976	973	11.5	648	26 000	..	..	..	..	..	..	..	..	..	..	..
25	Jusco Co. Ltd.	Japan	1986	5 780	44.0	3 309	19 200	-	-	x	-	2	2	1	-	4	5	7
			1980	2 613	23.1	1 546	12 900	..	..	..	..	..	..	..	..	..	..	1
			1976	858	11.2	559	9 100	..	..	..	..	..	..	..	..	..	..	..
26	J. Sainsbury Plc.	United Kingdom	1986	5 756	236.0	2 594	43 800	2	-	-	-	-	2	-	-	-	-	2
			1980	3 697	160.2	1 162	20 500	..	..	..	..	..	..	..	..	..	..	..
			1976	1 199	36.5	..	..	..	..	..	..	..	..	..	..	..	..	..
27	Super markets General Corp.	United States	1986	5 560	60.9	1 173	53 000	x	-	-	-	-	-	-	-	-	-	-
			1980	2 629	26.1	573	30 000	x	-	-	-	-	-	-	-	-	-	-
			1976	1 613	11.3	338	25 000	x	-	-	-	-	-	-	-	-	-	-
28	Albertson's Inc.	United States	1986	5 380	100.2	1 265	40 000	x	-	-	-	-	-	-	-	-	-	-
			1980	3 039	41.6	627	28 000	x	-	-	-	-	-	-	-	-	-	-
			1976	1 491	18.2	245	17 800	x	-	-	-	-	-	-	-	-	-	-
29	Zayre Corp.	United States	1986	5 351	89.0	1 879	63 500	x	-	-	-	-	-	-	-	-	-	-
			1980	1 594	18.0	561	28 000	x	-	-	-	-	-	-	-	-	-	-
			1976	1 196	11.1	354	26 000	x	-	-	-	-	-	-	-	-	-	-
30	Tesco Plc.	United Kingdom	1986	5 324	176.0	1 941	45 300	1	1	-	4	1	7	1	-	3	4	11
			1980	4 235	116.5	1 236	50 600	1	-	-	6	-	7	-	-	3	3	10
			1976	1 189	51.6	214	28 413	-	-	-	3	-	3	-	-	2	2	5

Source: UNCTC, based on various sources, including own inquiries.

a Parent company only.
b 1981.

Annex table B.7. The 20 largest accounting firms, 1977, 1980, 1986

Rank	Name	Home country	Year	Fee Income (Million dollars) Total	Fee Income (Million dollars) Percentage foreign	Number of partners Total	Number of partners Percentage foreign	Number of staff Total	Number of staff Percentage foreign	Foreign affiliates (Number) Developed countries United States	Canada	Japan	Western Europe	Other	Sub total	Developing countries Latin America	Africa	Asia	Sub total	Total
1	Arthur Andersen	United States	1986[a]	1 924	30	1 847	37	36 117	44	x	7	3	64	8	82	17	3	39	59	141 [b]
			1980	805	30	1 170 [c]	..	19 936	..	..	..	..	..	..	..	..	..	..	..	..
			1977	471	26	961 [c]	27	14 979	32	..	..	..	..	..	..	..	..	..	..	..
2	Coopers Lybrand	United States	1986[d]	1 695	50	3 075	66	38 500	65	x	10	8	166	65	249	44	35	69	148	397 [b]
			1980[e]	846	..	1 960	..	25 100	..	x	19	2	114	47	182	35	24	44	103	285 [f]
			1977	511	50	..	..	19 831	62	..	..	..	..	..	..	..	..	..	..	..
3	Peat Marwick [j]	United States	1986[g]	1 672[h]	35	2 726	49	32 183	55	x	27	5	87	49	168	40	32	57	129	297 [i]
			1980	816 [h]	36	1 769	36	21 565	51	x	22	2	64	31	119	30	18	24	72	191 [f]
			1977	516	33	1 497	37	18 400	..	..	..	..	..	..	..	..	..	..	..	..
4	Ernst Whinney	United States	1986[g]	1 492 [l]	39	2 640	57	28 800	56	x	76	9	78	48	211	44	8	69	121	332 [k]
			1980	706 [l]	39	..	..	19 000	50	x	14	1	61	32	108	39	16	49	104	212 [f]
			1977	385	26	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
4	Price Waterhouse	United States	1986[g]	1 488 [h]	50	2 291	69	32 725	67	x	23	7	122	41	193	66	29	49	144	337 [m]
			1980	752 [h]	56	1 487	88	..	..	..	..	..	..	..	..	..	..	..	..	..
			1977	479	49	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
6	Arthur Young	United States	1986[g]	1 427	57	2 572	70	29 000	69	x	24	16	119	39	198	37	14	39	90	288 [f]
			1980	750	..	1 410	52	19 500	64	x	21	6	75	32	134	38	6	34	78	212 [f]
			1977	390	46	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
7	Deloitte Haskins Sells International	United States	1986[g]	1 188	50	2 192	65	26 774	65	x	31	7	165	49	152	31	29	90	150	302 [f]
			1980[e]	654 [h]	49	1 650	54	22 470	67	x	33	2	57	36	128	28	25	36	89	217 [f]
			1977	410	46	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
8	Touche Ross International	United States	1986 [g]	1 151	51	2 600	68	27 500	10	x	42	15	169	51	277	41	19	77	137	414 [m]
			1980[e]	611	..	1 810	..	19 500	..	x	29	11	75	32	147	25	19	58	102	249 [f]
			1977	354	47	1 356	59	14 500	..	..	..	..	..	..	..	..	..	..	..	..
9	Klynveld Main Goerdeler [j]	Netherlands	1986[h]	1 137[h]	89	3 263	..	30 894	..	98	50	5	180	63	396	28	19	55	102	498 [n]
			1980	800	..	..	..	21 000	..	..	..	..	..	..	..	..	..	..	..	..
			1977	-	-	-	-	-	-	..	..	..	..	..	..	..	..	..	..	..
10	Binder Dijker Otte [p]	Netherlands	1986[g]	531	..	1 344	..	13 027	..	46	66	3	116	27	258	11	6	19	36	294 [m]
			1980	263	..	831	..	7 624	..	..	..	..	..	..	..	..	..	..	..	..
			1977	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

Annex table B.8. (continued)

Rank	Name	Home country	Year	Fee Income (Million dollars) Total	Fee Income (Million dollars) Percentage foreign	Number of partners Total	Number of partners Percentage foreign	Number of staff Total	Number of staff Percentage foreign	Foreign affiliates (Number) Developed countries United States	Canada	Japan	Western Europe	Other	Sub total	Developing countries Latin America	Africa	Asia	Sub total	TOTAL
11	Grant Thornton	United States	1986[a]	526 [h]	57	1 603	74	13 666	77	x	39	11	152	34	236	46	12	81	139	375 [f]
			1980	330 [h]	65	1 140	68	12 070	76	..	..	..	..	..	..	..	..	..	..	..
			1977	-	-	-	-	-	-	..	..	..	..	..	..	..	..	..	..	..
12	Horwath Horwath	United States	1986[q]	362 [h]	23	990	55	8 750	48	x	19	3	61	18	101	37	7	32	76	177 [b]
			1980	220 [h]	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
			1977	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
13	Dunwoody Robson McGladrey & Pullen	United States	1986[g]	283	57	1 139	65	7 256	71	x	34	5	78	29	146	28	11	57	96	242 [f]
			1980	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
			1977	..	..	423	..	..	..	..	..	..	..	..	..	..	..	..	..	..
14	Spicer and Oppenheim	United Kingdom	1986[n]	263 [h]	75	775	76	7 775	72	11	1	5	109	43	166	11	14	36	61	227 [k]
			1980	..	..	..	..	..	..	12	14	-	51	18	95	5	5	4	14	109 [f]
			1977	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
15	Moores Rowland Interna-tional	United Kingdom	1986[s]	236 [h]	90	892	92	6 666	..	..	..	..	..	..	..	..	..	..	..	..
			1980	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
			1977	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
16	DFK Inter-national	United States	1986[t]	218 [h]	78	498	76	3 498	80	x	8	2	57	11	78	29	4	24	57	135 [f]
			1980	120	83	250	76	1 700	82	..	..	..	..	..	..	..	..	..	..	..
			1977	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
17	Pannell Kerr Forster	United Kingdom	1986[t]	215 [h]	79	696	76	6 482	76	..	..	..	..	..	..	..	..	..	..	..
			1980	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
			1977	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
18	Dearden Farrow Inter national [p]	United Kingdom	1986[h]	211 [h]	86	687	86	5 717	84	24	6	2	89	16	137	21	4	31	56	193 [f]
			1980	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
			1977	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
19	Moore Stephens	United Kingdom	1986[v]	203 [h]	87	644	83	5 430	83	..	..	..	..	..	..	..	..	..	..	..
			1980	..	..	..	..	..	..											
			1977	..	..	..	..	..	..											
20	Clark Kenneth Leventhal	United States	1986[w]	178	48	480	88	4 100	81	x	16	4	37	8	65	30	11	27	68	133 [f]
			1980	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
			1977	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

Annex table B.7. (continued)

Source: UNCTC, based on various sources, including own inquiries.

a Without correspondents which do work for other firms.
b Includes correspondents.
c Active partners only.
d 1986 data are for all member firms plus refered work by associated firms. Correspondents excluded.
e Without correspondents which do work for other firms.
f Member and correspondent firms included.
g 1986 data, member firms only.
h 1986 data, member and representative firms.
i KMG merged with Peat Marwick in January 1987. The new firm is known as Klynveld Peat Marwick Goerdeler (KPMG) internationally, and Peat Marwick Main in the United States.
j B&W merged with Thorne Riddell, April 1986. Figures include Thorne Riddell, but locations with more than one office are counted only once.
k Member, representative and correspondent firms included.
l Only figures from members of the international firm.
m Member, correspondent and affiliated firms included.
n 1986 data, member and representative firms.
o Member, representative and affiliated firms included.
p The two United Kingdom firms of this international group merged 1 May 1987. Dearden Farrow (United Kingdom), now internationally linked to BDO. The other member firms of Dearden Farrow International have formed a new association called Summit International; their fee income is about $200 million.
q 1986 data include both partner and correspondent firms.
r 1986 data for exclusive members and representative firms only.
s 1986 data for exclusive members only.
t 1986 data for full members only.
u 1986 data for all affiliates included.
v 1986 data include all non-exclusive correspondents for number countries, offices. All other figures exclude all correspondents.
w 1986 data excludes all non-exclusive relationships, satellite offices included.

Annex table B.8. The 20 largest advertising agencies, 1976, 1980, 1986

Rank	Name	Home country	Year	Revenue (Millions of dollars) Total	Revenue (Millions of dollars) Percentage foreign	Gross billings (Millions of dollars) Total	Gross billings (Millions of dollars) Percentage foreign	Foreign affiliates (Number) Developed countries United States	Canada	Japan	Western Europe	Others	Subtotal	Developing countries Latin America	Africa	Asia	Subtotal	TOTAL
1	Saatchi & Saatchi	United Kingdom	1986	1 210	78	8 260	..	33	3	1	32	21	90	4	-	9	13	103
			1980	41	..	233	..	-	-	-	2	-	-	-	-	2	-	2
			1976	..	..	..	..	-	-	-	-	1	1	-	-	-	-	1
2	Inter-public Group	United States	1986	822	55	5 550	54	x	3	1	90	10	104	19	4	11	33	138
			1980	483	53	3 219	53	x	3	1	51	8	63	17	2	6	25	88
			1976	194	56	1 290	55	..	..	..	..	..	..	..	..	..	.. ..	
3	OMNICOM [a]	United States	1986	820	25	5 820	28	1	2	4	57	6	70	4	-	9	13	83
			1980	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
			1976	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
4	Dentsu	Japan	1986	706	..	5 484	6	4	-	x	1	1	6	-	-	5	5	11
			1980	394	..	2 721	..	1	-	x	-	-	1	-	-	1	1	2
			1976	176	..	1 189	..	-	-	x	-	-	-	-	-	-	-	-
5	J. Walter Thompson	United States	1986	645	33	4 300	33	4	6	1	84	12	107	18	-	17	35	142
			1980	323	57	2 138	57	2	5	1	59	9	76	8	-	8	16	92
			1976	156	51	1 039	50	..	..	..	..	..	..	..	..	..	..	..
6	Young Rubicam	United States	1986	628	43	4 190	43	-	3	2	64	2	71	6	-	7	13	84
			1980	341	41	2 273	41	1	2	1	28	1	33	4	-	2	6	39
			1976	140	39	933	39	..	..	..	..	..	..	..	..	..	..	..
7	Ogilvy Group	United States	1986	549	41	3 800	42	x	7	1	93	16	117	12	1	20	33	130
			1980	246	49	1 662	50	x	2	-	33	6	41	6	1	8	15	56
			1976	106	52	714	49	..	..	..	..	..	..	..	..	..	..	..
8	D'Arcy, Masius, Benton & Bowes	United States	1986	336	43	2 260	42	x	2	-	51	2	55	4	2	2	8	63
			1980	156	32	1 045	57	..	..	..	..	..	..	..	..	..	..	..
			1976	72	47	481	53	..	..	..	..	..	..	..	..	..	..	..
9	Foote Cone & Belding Communi-cations	United States	1986	323	25	2 150	25	2	1	1	33	5	42	13	-	6	19	61
			1980	164	34	1 118	33	-	1	-	18	2	21	1	-	2	-	
			1976	68	31	455	31	-	1	-	19	2	22	1	-	-	1	23
10	Hakuhodo	Japan	1986	310	..	2 270	..	1	-	x	1	-	2	1	-	3	4	6
			1980	130	..	927	..	1	-	x	1	-	2	1	-	3	4	6
			1976	58	..	390	..	..	..	..	..	..	..	..	..	..	..	..

Annex table B.9. (continued)

Rank	Name	Home country	Year	Revenue (Millions of dollars)		Gross billings (Millions of dollars)		Foreign affiliates (Number)										
								Developed countries						Developing countries				
				Total	Percentage foreign	Total	Percentage foreign	United States	Canada	Japan	Western Europe	Others	Subtotal	Latin America	Africa	Asia	Subtotal	TOTAL
11	Grey Advertising	United States	1986	309	34	2 060	42	x	1	1	15	6	23	9	-	3	11	34
			1980	119	34	796	34	x	1	1	11	3	16	6	-	-	6	22
			1976	71	28	473	28	x	1	1	10	3	15	2	-	-	-	17
12	Leo & Burnett	United States	1986	292	36	2 060	34	x	-	-	3	-	3	-	-	-	-	3
			1980	170	36	1 145	36	..	..	..	..	..	..	..	..	..	..	..
			1976	108	31	731	31	1	1	1	5	3	11	5	1	4	10	21
13	Eurocom	France	1986	216	..	1 460	..	4	-	-	10	-	14	-	-	-	-	14
			1980	105	..	712	..	..	..	..	..	..	..	..	..	..	..	..
			1976	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
14	Bozell, Jacobs Kenyon Eckhardt	United States	1986	176	11	125	10	..	..	..	..	..	..	..	..	..	..	..
			1980	58	1	389	1	..	..	..	..	..	..	..	..	..	..	..
			1976	47	53	288	57	..	..	..	..	..	..	..	..	..	..	..
15	N.W. Ayer	United States	1986	126	27	901	25	..	..	..	..	..	..	..	..	..	..	..
			1980	76	10	497	11	..	..	..	..	..	..	..	..	..	..	..
			1976	31	1	221	5	..	..	..	..	..	..	..	..	..	..	..
16	Publicis	France	1986	120	..	792	..	1	-	-	28	-	29	-	-	-	-	29
			1980	84	..	579	..	1	-	-	18	-	19	-	-	-	-	19
			1976	37	..	246	..	1	-	-	5	-	6	-	-	-	-	6
17	Lowe, Howard-Spink,Bell	United Kingdom	1986	111	..	760	..	3	1	-	10	1	15	-	-	1	1	16
			1980	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
			1976	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
18	WCRS Group	United Kingdom	1986	86	..	660	..	1	-	-	-	-	1	-	-	-	-	1
			1980	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
			1976	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
19	Roux, Seguela Cayzac, Goudard	France	1986	80	..	552	..	..	..	..	..	..	..	..	..	..	..	..
			1980	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
			1976	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
20	Ketchum Communications	United States	1986	75	8	529	8	..	..	..	..	..	..	..	..	..	..	..
			1980	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
			1976	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

Source: UNCTC, based on various sources, including own inquiries.

a In 1980 and 1976, OMNICOM did not exist in any corporate form comparable to 1986. Figures for 1980 and 1976 can, therefore, not be provided.

b Figures provided for 1976 are only for Kenyon and Eckhardt. They do not include Bozell and Jacobs.

Annex table B.9. The 10 largest market research companies, 1986

Rank	Company/agency	Parent company	Home country	Total revenue (Millions of dollars)	Employment (Number)	Foreign affiliates (Number)										
						Developed countries						Developing countries				
						United States	Canada	Japan	Western Europe	Other	Subtotal	Latin America	Africa	Asia	Subtotal	TOTAL
1	A.C. Nielsen Co	Dun & Bradstreet Corp.	United States	615.0	8 000	x	1	1	16	2	20	4	1	-	5	25
2	IMS International Inc.		United States	254.4	4 100	x	1	4	50	6	61	13	7	6	26	87
3	SAMI/Burke	Time Inc.	United States	174.5	2 000	x	1	-	-	-	1	-	-	-	-	1
4	AGB Research PLC		United Kingdom	161.7	3 584	5	-	-	42	7	54	-	-	13	13	67
5	Arbitron Ratings Co.	Control Data Corp.	United States	137.2	600	x	-	-	-	-	-	-	-	-	-	-
6	Information Resources Inc.		United States	93.6	1 762	x	-	-	2	1	3	-	-	-	-	3
7	Research International	Unilever	United Kingdom	59.0	703	1	-	-	11	6	18	-	1	-	1	19
8	The NPD Group		United States	37.0	455	x	1	1	1	-	3	-	-	-	-	3
9	Market Facts, Inc.		United States	36.0	600	x	1	-	-	-	1	-	-	-	-	1
10	Elrick and Lavidge, Inc.		United States	27.0	200	x	1	2	-	-	-	-	-	-	-	3

Source: UNCTC, based on various sources, including own inquiries.

Annex table B.10. The 15 largest law firms, 1987

Rank	Name	Home country	Gross revenues (Millions of dollars)	Number of lawyers and partners	Percentage of lawyers and partners abroad	Foreign offices (Number)										
						Developed countries						Developing countries				
						United States	Canada	Japan	Western Europe	Others	Subtotal	Latin America	Africa	Asia	Subtotal	Total
1	Backer & MacKenzie	United States	157	1 070	70	x	-	1	12	-	13	8	-	5	13	30 [a]
2	Clifford Chance	United Kingdom	..	803	..	1	-	1	4	-	6	-	-	6	6	12
3	Coudert Brothers	United States	..	300	36	x	-	1	3	1	5	1	-	2	3	11 [b]
4	Jones, Day Reavis	United States	129.5	933	3	x	-	-	3	-	3	-	-	2	2	5
5	Shearman & Sterling	United States	137	517	5	x	-	-	2	-	2	-	-	2	2	4
6	Sullivan & Cromwell	United States	115	345	4	x	-	1	2	1	4	-	-	-	-	4
7	McKenna & Co.	United Kingdom	..	351	..	1	-	-	1	-	2	-	-	2	2	4
8	Freshfields	United Kingdom	..	351	..	1	-	-	1	-	2	-	-	2	2	4
9	Slaughter & May	United Kingdom	..	325	..	1	-	1	1	-	3	-	-	1	1	4
10	Sidley & Austin	United States	115	689	2	-	-	-	1	-	1	-	-	2	2	3

Annex table B.10. (continued)

Rank	Name	Home country	Gross revenues (Millions of dollars)	Number of lawyers and partners	Percentage of lawyers and partners abroad	Foreign offices (Number)										
						Developed countries						Developing countries				
						United States	Canada	Japan	Western Europe	Others	Subtotal	Latin America	Africa	Asia	Subtotal	Total
11	Herbert Smith	United Kingdom	..	283	..	1	-	-	1	-	2	-	-	1	1	3
12	Morton Rose	United Kingdom	..	273	..	-	-	-	-	-	-	-	-	3	3	3
13	Allen Allen Hemsley	Australia	..	200	..	1	-	-	1	-	2	-	-	1	1	3
14	Stikerman Eliott	Canada	..	163	..	1	-	-	1	-	2	-	-	1	1	3
15	Skadden Arps.	United States	228	852	0.5	x	-	1	1	-	2	-	-	-	-	2

Source: UNCTC, based on various sources, including own inquiries.

Note: Because of the unavailabilty of data for non-US law firms, the firms in this list are ranked according to their foreign offices.

a Backer MacKenzie has three offices in China and one in Hungary.
b Coudert Brothers has two offices in China and one in the USSR.

Annex table B.11. The 20 largest construction companies, 1978, 1980, 1986

Rank	Company	Home country	Year	Contracts Total (Millions of dollars)	Contracts Percentage foreign	Sales (Millions dollars)	Employment (Thousands)	Net income (Millions dollars)	Assets (Millions dollars)	Foreign affiliates (Number)									
										Developed countries						Developing countries			
									United States	Canada	Japan	Western Europe	Others	Subtotal	Latin America	Africa	Asia	Subtotal	TOTAL
1	Bouygues	France	1986	7 450	19	5 862	5.9	69	6 333	6	1	-	4	-	11	1	15	4	20	31
			1980	1 840	24	480	5.9	15	942	-	-	-	-	-	-	1	4	-	5	5
			1978	..	..	301	7.0	..	..	-	-	-	-	-	-	3	-	3	3	3
2	Shimizu Const.Co.	Japan	1986	7 129	11	4 760	10.1	50	5 524	4	1	x	1	1	7	1	-	6	7	14
			1980	4 011	4	..	...	..	..	-	-	x	1	-	1	1	-	3	4	5
			1978	3 117	5	358	7.4	..	..	-	-	x	-	-	-	1	-	2	3	3
3	Bechtel Group	United States	1986	7 079	49	8 600	30.0	..	..	x	-	-	6	1	7	12	-	1	13	20
			1980	10 615	80	6 700	30.0	..	..	x	2	-	4	-	6	12	-	-	12	18
			1978	4 637	85	6 700	31.5	..	..	x	2	-	1	-	3	5	-	-	5	8
4	M.W. Kellogg Co. [a]	United States	1986	6 945	73	..	18.8	..	..	x	3	-	5	-	8	2	-	3	5	13
			1980	3 000	62	..	18.8	19	..	x	2	-	7	-	9	2	-	5	7	16
			1978	2 000	75	..	14.7	..	..	x	2	-	9	-	11	5	2	5	10	21
5	Taisei Corporation	Japan	1986	6 856	5	5 257	12.1	19	6 400	2	-	x	-	-	2	-	1	5	6	8
			1980	3 879	1	3 497	12.6	42	4 208	-	-	x	-	-	-	-	1	-	1	1
			1978	1 696	2	2 600	13.1	..	..	-	-	x	-	-	-	-	-	-	-	-
6	Kumagai Gumi Co.	Japan	1986	6 473	29	4 886	8.0	73	6 967	2	-	x	1	1	4	-	-	5	5	9
			1980	2 821	5	..	7.4	..	..	-	-	x	-	-	-	-	-	5	5	5
			1978	..	..	1 522	7.8	..	2 320	-	-	x	-	-	-	-	-	5	5	5
7	The Parsons Corp.	United States	1986	6 409	60	821	7.0	..	795	x	-	-	1	2	3	5	-	1	6	9
			1980	9 423	88	1 226	24.0	..	..	x	-	-	1	1	2	4	-	1	5	7
			1978	..	..	608	14.0	..	..	x	-	-	1	1	2	3	-	2	5	7
8	Fluor Daniel [b]	United States	1986	6 075	16	4 660	22.3	60	2 565	x	1	1	14	5	21	12	1	9	22	43
			1980	9 134	55	4 826	27.3	132	1 705	..	..	..	..	..	..	..	..	..	..	..
			1978	2 881	57	4 000	..	..	..	x	2	1	12	3	18	12	3	10	25	43
9	Kajima Corp.	Japan	1986	5 998	10	6 723	13.5	101	7 910	5	-	x	-	-	5	2	-	4	6	11
			1980	4 413	7	3 518	12.0	70	4 871	3	-	x	-	-	3	1	-	1	2	5
			1978	359	65	2 735	..	63	3 805	3	-	x	-	-	3	1	-	1	2	5
10	Mitsubishi Heavy Ind. [c]	Japan	1986	5 800	17	15 981	88.6	300	20 642	8	-	x	2	-	10	3	-	9	12	22
			1980	..	..	10 998	95.3	101	13 369	4	-	x	4	1	9	2	-	5	7	16
			1978	..	..	5 787	79.8	..	..	1	-	x	2	-	3	-	-	2	2	5

Annex table B.11. (continued)

Rank	Company	Home country	Year	Contracts (Million dollars) Total	Contracts (Million dollars) Percentage foreign	Sales (Million dollars)	Employment (Thousands)	Net income (Million dollars)	Assets (Million dollars)	Foreign affiliates (Number) Developed countries: United States	Canada	Japan	Western Europe	Others	Subtotal	Developing countries: Latin America	Africa	Asia	Subtotal	TOTAL
11	Takenaka Komuten	Japan	1986	5 793	8	4 595	8.9	46	5 184	3	x	-	5	-	8	1	-	3	4	12
			1980	..	..	..	..	..	..	1	-	x	1	-	2	-	-	-	-	2
			1978	..	..	1 880	8.5	..	..	1	-	x	1	-	2	-	-	-	-	2
12	Ohbayashi Corp.	Japan	1986	5 468	5	3 620	10.5	34	5 406	8	-	x	-	-	8	-	-	6	6	14
			1980	..	..	2 640	..	32	23 683	7	-	x	-	-	7	1	-	4	5	12
			1978	..	..	..	..	..	..	2	-	x	-	-	2	1	-	2	3	5
13	Philipp Holzmann AG	Germany, Federal Republic	1986	4 248	48	3 005	27.4	12	1 373	29	-	-	14	-	43	-	5	1	6	49
			1980	3 737	66	..	..	..	..	9	-	-	5	-	14	-	2	4	6	20
			1978	2 605	60	4 082	27.0	..	..	-	-	-	3	-	3	-	1	2	3	6
14	Brown Root Inc.	United States	1986	3 541	51	3 600	27.0	..	..	-	1	-	5	2	8	9	2	4	15	23
			1980	10 145	10	5 000	65.0	..	..	-	2	-	10	4	16	5	2	2	9	25
			1978	4 347	13	3 500	57.2	..	..	-	2	-	9	3	14	5	2	3	10	24
15	Ansaldo SpA	Italy	1986	3 470	30	..	..	..	..	-	-	-	2	3	5	-	-	-	-	5
			1980	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
			1978	..	..	..	..	..	..	-	-	-	-	-	-	-	-	-	-	-
16	Société Auxiliaire d'Entreprise (SAE)	France	1986	3 365	33	2 687	27.0	38	3 228	4	-	-	-	1	5	1	2	1	4	9
			1980	1 966	24	1 252	14.6	34	1 562	1	-	-	1	-	2	-	-	-	-	2
			1978	800	6	766	..	7	895	-	-	-	-	-	-	-	-	-	-	-
17	Hazama-Gumi	Japan	1986	3 120	11	379	3.2	..	..	-	-	x	-	-	-	-	-	3	3	3
			1980	..	..	..	..	..	..	-	-	x	-	-	-	-	-	-	-	-
			1978	1 916	1	1 056	5.6	..	..	..	..	..	..	..	..	..	..	..	..	..
18	Société Générale d'Entreprise (SGE)	France	1986	3 700	28	..	..	..	..	1	1	-	-	-	2	1	1	1	3	5
			1980	1 649	47	2 144	..	20	1 722	1	1	-	-	-	2	-	1	-	1	3
			1978	798	21	1 446	5.1	10	1 130	1	1	-	-	-	2	-	1	-	1	3
19	Ebasco Services	United States	1986	2 997	5	811	6.1	11	277	x	1	-	1	1	3	3	-	3	6	9
			1980	3 711	6	529	6.0	20	171	x	1	-	-	-	1	3	-	-	3	4
			1978	..	..	..	4.4	..	..	x	1	-	-	-	1	-	-	-	-	1
20	Spie Batig-nolles	France	1986	2 992	44	6 690	15.5	..	..	1	-	-	2	1	4	3	4	1	8	12
			1980	2 019	58	1 407	..	22	2 549	-	-	-	-	-	-	-	-	-	-	-
			1978	..	..	952	15.8	8	2 041	-	-	-	-	-	-	-	-	-	-	-

Source: UNCTC, based on various sources, including own inquiries.

a In 1978, The M.W. Kellog Co. belonged to Pullman Kellog as a division of Pullman Corp. In 1980, Pullman was taken over by Wheelabrator-Frye. In 1985 Wheelabrator-Frye was absorbed by Allied-Signal Inc. In 1986, the construction units of Allied-Signal Inc. became part of the Henley Group Inc. Therefore a clear determination of the affiliates of M.W. Kellog is not possible. To give an approximation, the companies with "Kellog" in their company's name were taken as affiliates.

b In 1978, Fluor Daniel had not merged. The figures include two separate companies: Daniel International Corp. and Fluor Corp. In 1980, Daniel International Corp. was absorbed by Fluor Corp.

c Mitsubishi Heavy Ind. figures include also its affiliates working in industrial machinery, power generating equipment, motor vehicles, aircraft and shipbuilding.

Annex table B.12. The 15 largest publishing companies, 1976, 1980, 1986

Rank	Name	Home country	Year	Total revenue (Millions of dollars)	Net income (Millions of dollars)	Assets (Millions of dollars)	Employment (Thousands)	Foreign affiliates (Number)									
								Developed countries						Developing countries			
								United States	Canada	Japan	Western Europe	Other	Subtotal	Latin America	Africa	Asia	Subtotal	TOTAL
1	Time Incorporated	United States	1986	3 762	376.4	4 300	21.5	x	3	1	13	2	19	3	-	5	8	27
			1980	2 882	141.2	2 371	26.0	x	2	8	16	2	28	1	-	3	4	32
			1976	1 038	67.1	866	12.5	x	3	2	12	2	19	1	-	2	3	22
2	Bertelsmann AG	Germany, Federal Republic of	1986	3 034	71.3	2 082	31.6	21	2	-	57	2	82	11	-	-	11	93
			1980	2 676	22.2	1 615	29.6	17	1	-	62	-	80	10	-	-	10	90
			1976	843	6.2	491	21.8	1	-	-	46	-	47	6	-	-	6	53
3	The Times Mirror Company	United States	1986	2 920	408.1	2 929	27.9	x	3	1	11	1	16	2	-	1	3	19
			1980	1 857	139.2	1 735	26.9	x	4	-	12	2	18	4	-	1	5	23
			1976	965	69.5	730	17.7	x	2	-	4	1	7	1	-	-	1	8
4	Gannett Co. Inc.	United States	1986	2 802	276.4	3 366	36.0	1	1	-	-	-	2	-	-	-	-	2
			1980	1 215	152.0	1 212	23.0	x	1	-	-	-	1	4	-	-	4	5
			1976	413	48.0	377	13.5	..	..	..	..	..	..	..	..	..	..	..
5	The News Corporation Ltd.	Australia	1986	2 677	172.1	5 698	22.8	26	2	-	93	4	125	13	1	22	36	161
			1980	..	..	..	..	1	-	-	4	1	6	2	-	1	3	9
			1976	..	..	..	..	1	-	-	4	1	6	2	-	1	3	9
6	Reed International PLC.	United Kingdom	1986	2 659	109.3	1 863	34.7	31	10	-	47	10	98	1	4	11	16	114
			1986	3 306	162.9	..	61.1	24	12	-	57	26	119	3	6	3	12	131
			1976	..	..	..	..	18	42	-	72	92	224	21	15	14	50	274
7	International Thomson Organisation Ltd.	Canada	1986	2 514	142.3	2 715	20.7	35	-	-	58	8	101	-	-	1	1	102
			1980	385	8.3	250	22.0	14	1	-	81	7	103	-	3	-	3	106
			1976	167	3.2	111	20.1	..	..	..	..	..	..	..	..	..	..	..
8	Hachette S.A.	France	1986	2 127	58.6	1 516	14.8	5	3	-	34	-	42	6	1	-	7	49
			1980	1 660	7.5	800	13.7	5	7	-	27	-	39	5	14	-	19	58
			1976	991	..	..	..	5	4	-	17	1	27	1	11	-	12	39
9	Tribune Co.	United States	1986	2 030	292.9	2 589	14.0	x	5	-	1	-	6	-	-	-	-	6
			1980	1 233	78.0	1 017	..	x	1	-	-	-	1	1	-	-	1	2
			1976	810	42.0	578	..	..	..	..	..	..	..	..	..	..	..	..
10	Knight-Ridder	United States	1986	1 911	140.0	1 947	24.0	x	-	-	-	-	-	-	-	-	-	-
			1980	1 100	92.9	862	15.4	x	-	-	1	-	1	-	-	-	-	1
			1976	678	52.3	517	13.8	..	..	..	..	..	..	..	..	..	..	..

Annex table B.12. (continued)

Rank	Name	Home country	Year	Total revenue	Net income	Assets	Employment	Foreign affiliates (Number)									
								Developed countries						Developing countries			
				(Millions of dollars)			(Thousands)	United States	Canada	Japan	Western Europe	Other	Subtotal	Latin America	Africa	Asia	Subtotal	Total
11	McGraw-Hill Inc.	United States	1986	1 577	154.0	1 463	15.2	x	3	2	11	4	20	4	-	3	7	27
			1980	1 000	86.4	786	14.2	x	2	-	8	2	12	4	-	3	7	19
			1976	590	40.5	482	11.5	x	2	2	7	3	14	3	-	1	4	18
12	The New York Times Co.	United States	1986	1 565	132.2	1 405	10.0	x	3	-	4	-	7	1	-	-	1	8
			1980	732	40.6	450	7.0	x	4	-	4	5	13	-	-	-	-	13
			1976	451	22.3	254	6.7	x	4	5	6	-	15	-	-	-	-	15
13	Pearson Plc.	United Kingdom	1986	1 397	94.5	1 405	27.8	50	9	1	26	6	92	7	15	20	42	134
			1980	1 375	94.0	1 342	35.6	26	8	-	29	17	80	7	10	7	24	104
			1976	524	31.9	599	30.0	11	7	15	16	-	49	2	8	3	13	62
14	Axel Springer Verlag AG	Germany, Federal Republic of	1986	1 225	43.5	598	11.3	-	-	-	3	-	3	-	-	-	-	3
			1980	1 132	11.8	389	12.0	-	-	-	-	-	-	-	-	-	-	-
			1976	..	..	..	..	-	-	-	-	-	-	-	-	-	-	-
15	Washington Post Company	United States	1986	1 215	100.2	1 145	6.4	1	2	-	1	-	4	-	-	-	-	4
			1980	660	34.3	429	5.4	x	1	-	1	-	2	-	-	-	-	2
			1976	376	24.5	259	4.7	x	1	-	1	-	2	-	-	-	-	2

Source: UNCTC, based on various sources, including own inquiries.

Annex table B.13. The 30 largest transportation companies, 1986

Rank	Name	Home country	Sub-sector	Total revenue (Millions of dollars)	Net income	Assets	Employment (Number)	Foreign affiliates (Number)										
								Developed countries						Developing countries				
								United States	Canada	Japan	Western Europe	Others	Subtotal	Latin America	Africa	Asia	Subtotal	TOTAL
1	Japan Railways Group [a]	Japan	Railways	16 070	-8	81 995	276 800	-	-	x	-	-	-	-	-	-	-	-
2	Deutsche Bundesbahn	Germany, Federal Republic of	Railways	12 558	-1 530	35 456	272 800	4	3	1	28	2	38	7	4	3	14	52
3	SNCF-French National Railways	France	Railways	9 548	-560	20 310	228 500	-	-	-	10	-	-	-	-	-	-	10
4	United Parcel Service of America	United States	Cargo Trucking	8 619	668	4 801	168 200	x	1	1	-	-	2	-	-	-	-	2
5	Burlington Northern	United States	Railways	6 941	-860	10 651	44 200	x	1	-	-	-	1	2	-	-	2	3
6	Union Pacific	United States	Railways	6 688	-460	10 863	32 700	x	2	-	-	-	2	3	-	-	3	5
7	CSX	United States	Railways	6 345	418	12 661	48 000	x	1	-	2	-	3	-	-	-	-	3
8	Santa Fe Southern Pacific	United States	Railways	5 802	-138	11 602	53 423	x	-	1	-	-	1	1	-	-	1	2
9	Nippon Express	Japan	Trucking	5 477	51	3 168	45 988	5	1	x	6	-	12	1	-	5	6	18
10	Norfolk Southern	United States	Railways	4 076	519	9 753	38 297	x	9	-	2	-	11	2	-	-	2	13

Annex table B.13. (continued)

Rank	Name	Home country	Sub-sector	Total revenue (Millions of dollars)	Net income	Assets	Employment (Number)	Foreign affiliates (Number)									
								Developed countries						Developing countries			
								United States	Canada	Japan	Western Europe	Others	Subtotal	Latin America	Africa	Asia	Subtotal	TOTAL
11	British Railways Board	United Kingdom	Railways	4 333	2	3 361	178 400	1	-	-	3	-	4	-	-	-	-	4
12	Nippon Yusen Kaisha Line	Japan	Shipping	3 787	23	4 523	3 900	-	-	x	2	-	2	2	6	4	12	14
13	Canadian National Railway Co.	Canada	Railways	3 513	62	5 681	56 700	11	x	-	1	-	12	1	-	-	1	13
14	South African Transport Services	South Africa	Transportation	3 339	-165	9 235	221 700	..	..	..	..	..	..	..	..	..	..	..
15	Danzas Group	Switzerland	Trucking	3 113	5	419	11 600	2	1	-	17	2	22	4	-	2	6	28
16	Trafalgar House	United Kingdom	Shipping	3 042	54	..	..	1	1	-	1	3	6	2	-	1	3	9
17	Peninsular & Oriental Steam Navigation	United Kingdom	Shipping	2 864	223	..	..	14	1	-	41	69	125	14	3	17	34	159
18	Greyhound	United States	Bus	2 647	95	2 964	..	x	7	-	29	-	36	14	3	3	20	56
19	Federal Express	United States	Cargo, Express Mail	2 606	132	2 276	33 988	x	-	1	-	-	1	-	-	-	-	1
20	Kinki Nippon Railway Co. Ltd. [b]	Japan	Railways	2 536	59	4 831	12 900	1	-	x	1	-	2	-	-	2	2	4

Annex table B.13. (continued)

Rank	Name	Home country	Sub-sector	Total revenue (Millions of dollars)	Net income	Assets	Employment (Number)	Foreign affiliates (Number)									
								Developed countries						Developing countries			
								United States	Canada	Japan	Western Europe	Others	Subtotal	Latin America	Africa	Asia	Subtotal	TOTAL
21	SNCB-Belgian National Railways	Belgium	Railways	2 522	..	..	54 100	-	-	-	2	-	2	-	-	-	-	2
22	Mitsui O.S.K Lines Ltd.	Japan	Trucking	2 500	9	3 597	4 600	3	-	x	2	-	5	4	-	6	10	15
23	Schweizer-ische Bundesbahn	Switzer-land	Railways	2 151	..	..	37 100	-	-	-	1	-	1	-	-	-	-	1
24	Con-solidated Freightways	United States	Trucking	2 125	89	1 275	24 600	x	8	-	5	2	15	1	-	2	3	18
25	Kawasaki Kisen Co. Ltd. [c]	Japan	Shipping	1 814	-44	2 091	2 048	4	-	x	2	1	7	3	7	3	13	20
26	East Asiatic	Denmark	Shipping	1 752	38	..	..	..	..	..	..	..	..	..	..	..	..	..
27	Yellow Freight System	United States	Trucking	1 732	68	862	23 500	x	3	-	-	-	3	-	-	-	-	3
28	Roadway Services	United States	Trucking	1 718	77	1 071	23 500	x	1	-	-	-	1	-	-	-	-	1
29	Royal Nedlloyd Groups	Nether lands	Shipping	1 607	29	1 957	16 047	7	-	2	48	8	65	18	2	16	36	101
30	Hapag Lloyd Groups	Germany, Federal Republic of	Shipping Trucking	1 587	24	...	8 414	8	1	-	28	-	37	4	-	4	8	45

Source: UNCTC, based on various sources, including own inquiries.

a On 1 April 1987, Japan National Railways (JNR) sold its shares, and six private companies, belonging to the Japan Railways Group, were created.

b Subsidiary of Kintetsu Group.

c Subsidiary of Kawasaki Group.

Annex table B.14. The 25 largest airline companies, 1976, 1980 and 1985[a]

Rank	Company	Home country	Year	Revenue (Millions of dollars) Total	Revenue (Millions of dollars) International	Net income (Million dollars)	Assets (Millions of dollars)	Number of employees	Offices (1986) (Number) Total	Offices (1986) (Number) Abroad	Foreign affiliates (Number) Developed countries: United States	Canada	Japan	Western Europe	Other	Subtotal	Developing countries: Latin America	Africa	Asia	Subtotal	TOTAL
1	American Airlines [a]	United States	1985	5 859	445	323	6 389	42 662	152	44	x	-	-	1	-	1	2	-	-	3	4
			1980	3 675	451	-76	3 264	40 656	..	..	x	-	-	1	-	1	1	-	-	1	2
			1976	2 094	245	56	1 715	36 080	..	..	x	-	-	-	-	-	1	-	-	1	1
2	United Airlines [b]	United States	1985	4 920	138	-88	5 180	46 408	117	37	x	-	-	-	-	-	-	-	-	-	-
			1980	4 373	..	-23	3 403	50 016	..	..	x	-	-	-	-	-	-	-	-	-	-
			1976	2 633	-	21	2 415	49 849	..	..	..	..	..	..	..	..	..	..	..	..	..
3	Eastern Airlines	United States	1985	4 815	412	6	3 988	39 597	128	30	x	-	-	-	-	-	1	-	-	1	1
			1980	3 453	470	-17	2 899	40 503	..	..	x	-	-	-	-	-	1	-	-	1	1
			1976	1 826	299	46	1 350	34 684	..	..	x	-	-	-	-	-	1	-	-	1	1
4	Delta Airlines	United States	1985	4 738	301	157	3 553	37 619	104	11	x	-	-	2	-	2	-	-	-	-	2
			1980	3 302	145	131	2 163	36 445	..	..	..	..	..	..	..	..	..	..	..	..	..
			1976	1 629	37	84	1 482	29 051	..	..	..	..	..	..	..	..	..	..	..	..	..
5	British Airways [c]	United Kingdom	1985	4 373	3 959	253	2 667	39 498	212	166	6	-	-	7	-	13	2	7	4	13	26
			1980	4 125	..	-338	3 814	51 955	..	..	3	1	-	13	7	24	5	15	18	38	62
			1976	1 828	..	0	1 668	52 260	..	..	1	2	-	8	8	19	6	15	11	32	51
6	Trans World Airlines	United States	1985	3 861	1 741	-193	2 800	29 162	108	24	x	-	-	-	-	-	-	-	-	-	-
			1980	3 278	1 060	34	2 564	33 852	..	..	x	-	-	-	-	-	1	-	-	1	1
			1976	2 039	649	37	1 755	35 110	..	..	x	1	-	1	-	2	1	-	1	2	4
7	Japan Airlines [d]	Japan	1985	3 625	..	-31	3 693	20 367	121	93	-	-	-	-	-	-	-	-	1	1	1
			1980	2 948	..	16	2 623	21 306	..	..	-	-	-	-	-	-	-	-	-	-	-
			1976	1 320	..	38	1 263	20 047	..	..	-	-	-	-	-	-	-	-	-	-	-
8	Lufthansa [e]	Germany, Federal Republic of	1985	3 530	..	22	1 986	34 905	277	30	3	-	-	9	-	12	1	1	-	2	14
			1980	3 039	..	3	2 002	30 664	..	..	1	-	-	1	1	3	1	1	1	3	6
			1976	1 445	..	45	1 164	26 451	..	..	-	-	-	2	1	3	1	2	-	3	6
9	Pan Am Airlines	United States	1985	3 157	2 617	41	2 386	21 900	112	64	x	-	-	3	1	4	10	2	1	13	17
			1980	3 639	2 691	80	3 448	35 201	..	..	x	-	-	-	1	1	7	-	2	9	10
			1976	1 731	1 595	-11	1 525	26 793	..	..	x	-	-	2	-	2	16	2	2	20	22
10	Air France [c]	France	1985	2 998	..	83	2 013	35 443	208	132	5	1	-	5	-	11	2	12	3	17	28
			1980	3 039	..	2	2 615	33 312	..	..	-	-	-	-	-	-	1	6	1	8	8

Annex table B.14. (continued)

Rank	Company	Home country	Year	Revenue (Millions of dollars) Total	Revenue (Millions of dollars) International	Net income (Million dollars)	Assets (Millions of dollars)	Number of employees	Offices (1986) (Number) Total	Offices (1986) (Number) Abroad	Foreign affiliates (Number) Developed countries: United States	Canada	Japan	Western Europe	Other	Subtotal	Developing countries: Latin America	Africa	Asia	Subtotal	TOTAL
11	Northwest Airlines	United States	1985	2 650	1 406 [f]	73	2 322	15 680	188 [g]	48 [g]	..	..	..	..	..	..	..	..	..	..	
			1980	1 628	544	7	1 573	12 859	..	..	..	..	..	..	..	..	..	..	..	..	..
			1976	971	266	52	1 173	11 208	..	..	..	..	..	..	..	..	..	..	..	..	..
12	All Nippon Airways	Japan	1985	2 084	..	35	2 691	10 945	61	8	-	-	x	-	-	-	-	-	1	1	1
			1980	1 424	..	9	306	10 924	..	..	-	-	-	-	-	-	-	-	-	-	-
			1976	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
13	Saudia Airlines [c]	Saudi Arabia	1985	2 002	..	-47	4 145	24 408	77	22	..	..	..	..	..	..	..	..	..	..	
			1980	1 269	..	-70	2 433	18 775	..	..	..	..	..	..	..	..	..	..	..	..	
			1976	331	..	-35	688	8 063	..	..	..	..	..	..	..	..	..	..	..	..	
14	KLM Royal Dutch Airlines [i]	Netherlands	1985	1 849	1 447 [h]	104	2 927	19 773	142	138	-	-	-	1	-	1	-	-	1	1	2
			1980	1 743	..	5	2 014	18 771	..	..	-	-	-	-	-	-	-	-	2	2	2
			1976	939	..	30	1 201	16 513	..	..	-	-	-	-	-	-	-	-	2	2	2
15	Air Canada[j]	Canada	1985	1 843	..	-11	1 890	22 183	93	55	-	x	-	1	-	1	-	-	-	-	1
			1980	1 629	..	49	1 478	23 139	..	..	1	x	-		-	1	-	-	-	-	1
			1976	1 072	..	-11	1 147	20 556	..	..	-	x	-	-	-	-	1	-	-	1	1
16	Alitalia [c]	Italy	1985	1 831	..	11	1 595	20 433	208	166	-	-	-	-	-	-	-	-	-	-	-
			1980	1 561	..	10	1 363	18 249	..	..	-	-	-	-	-	-	-	-	-	-	-
			1976	695	..	-48	787	16 089	..	..	-	-	-	2	-	2	-	1	-	1	3
17	Swissair [k]	Switzerland	1985	1 772	912 [h]	28	1 804	17 218	204	188	2	1	-	14	3	20	6	-	-	6	26
			1980	1 408	..	26	1 625	15 356	..	..	2	1	1	16	1	21	3	-	-	3	24
			1976	713	..	18	910	14 342	..	..	2	-	-	5	-	7	1	-	-	1	8
18	SAS	Denmark, Norway, Sweden	1985	1 763	0.1	92	1 229	19 421	449	294	1	-	-	20	-	21	-	-	-	-	21
			1980	1 492	0.1	-13	1 265	16 362	..	..	-	-	-	17	-	17	-	-	-	-	17
			1976	790	0.1	10	793	15 072	..	..	1	-	-	36	1	38	4	1	1	6	44
19	USAir	United States	1985	1 749	-	110	1 697	13 277	77	6	x	-	-	-	-	-	1	-	-	1	1
			1980	972	-	60	715	10 099	..	..	..	..	..	..	..	..	..	..	..	..	..
			1976	439	-	13	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
20	Republic Airlines [l]	United States	1985	1 734	..	177	1 286	14 060	..	..	..	..	..	..	..	..	..	..	..	..	..
			1980	917	..	-25	1 033	14 709	..	..	-	-	-	-	-	-	-	-	-	-	-

Annex table B.14. (continued)

Rank	Company	Home country	Year	Revenue (Millions of dollars) Total	Revenue (Millions of dollars) International	Net income (Millions of dollars)	Assets (Millions of dollars)	Number of employees	Offices (1986) (Number) Total	Offices (1986) (Number) Abroad	Foreign affiliates (Number) Developed countries United States	Canada	Japan	Western Europe	Other	Subtotal	Developing countries Latin America	Africa	Asia	Subtotal	TOTAL
21	Continental Airlines	United States	1985	1 731	364 [f]	64	1 314	11 943	141	107	x	-	-	-	-	-	6	-	5	11	11
			1980	988	86	-21	772	11 779	..	..	..	..	..	..	..	..	..	..	..	..	..
			1976	546	12	9	659	9 608	..	..	..	..	..	..	..	..	..	..	..	..	..
22	Iberia [c]	Spain	1985	1 595	..	-53	1 490	24 585	..	..	-	-	-	-	-	-	-	-	-	-	-
			1980	1 512	..	-95	1 622	24 211	..	..	-	-	-	-	-	-	1	-	-	1	1
			1976	662	..	-12	934	21 426	..	..	-	-	-	-	-	-	-	-	-	-	-
23	Piedmont Airlines	United States	1985	1 527	..	67	1 487	16 000	138	6	..	..	..	..	..	..	..	..	..	..	..
			1980	489	..	16	503	5 705	..	..	..	..	..	..	..	..	..	..	..	..	..
			1976	193	..	4	131	3 437	..	..	..	..	..	..	..	..	..	..	..	..	..
24	Singapore Airlines [m]	Singapore	1985	1 397	..	116	3 588	10 214	90	87	-	-	-	-	-	-	-	-	-	-	-
			1980	2 034	..	89	986	10 257	..	..	-	-	-	-	-	-	-	-	-	-	-
			1976	357	..	8	390	6 942	..	..	..	..	..	..	..	..	..	..	..	..	..
25	Western Airlines	United States	1985	1 307	58 [f]	67	952	10 649	..	..	x	-	-	-	-	-	-	-	-	-	-
			1980	996	84	-30	917	10 968	..	..	..	..	..	..	..	..	..	..	..	..	..
			1976	605	40	15	445	10 221	..	..	..	..	..	..	..	..	..	..	..	..	..

Source: UNCTC, based on various sources, including own inquiries.

Note: International revenues includes revenues from international flights.

a Subsidiary of AMR Corp.
b Subsidiary of UAL Corp.
c State controlled.
d In 1985, 34.5 per cent state owned. In 1980, 44 per cent state owned. In 1987, the company was entirely privatized.
e In 1985, 72.2 per cent state owned. In 1980, 74.3 per cent state owned.
f 1986 figures.
g Includes Republic Airlines offices.
h Excludes European traffic.
i In 1985, 75.5 per cent state owned in 1976, 70 per cent state owned.
j In 1985, state controlled. In 1976, subsidiary of Canadian National Railway Company.
k 24 per cent state and locally owned.
l Established in 1979.
m 77 per cent owned by the state holding company, Temosek.

Annex table B.15. The 25 largest hotel chains, 1977, 1980 and 1986

Rank	Company name	Home country	Year	Number of rooms		Number of hotels		Sales	Foreign affiliates (Number)										
									Developed countries						Developing countries				
				Total	Percentage foreign	Total	Percentage foreign	(Millions of dollars)	United States	Canada	Japan	Western Europe	Other	Subtotal	Latin America	Africa	Asia	Subtotal	TOTAL
1	Holiday Corp.	United States	1986	357 614	14	1 824	11	1 618	x	-	-	14	3	17	12	1	3	16	33
			1980	303 578	15	1 757	10	..	..	..	..	..	..	..	..	..	..	..	..
			1977	278 064	14	1 724	11	..	..	..	..	..	..	..	..	..	..	..	..
2	Best Western International Inc.	United States	1986	255 613	32	3 346	43	..	..	..	..	..	..	..	..	..	..	..	..
			1980	203 667	22	2 726	35	..	..	..	..	..	..	..	..	..	..	..	..
			1977	148 823	14	2 155	26	..	..	..	..	..	..	..	..	..	..	..	..
3	Sheraton Corp. [a]	United States	1986	142 000	34	506	25	3 740	x	-	-	1	-	1	1	-	-	1	2
			1980	107 996	29	419	21	..	..	..	..	..	..	..	..	..	..	..	..
			1977	94 263	7	667	7	..	..	..	..	..	..	..	..	..	..	..	..
4	Ramada Inc.	United States	1986	100 000	14	571	11	687	x	2	-	9	-	11	1	-	3	4	15
			1980	94 060	8	626	6	..	..	..	..	..	..	..	..	..	..	..	..
			1977	94 263	7	667	7	..	..	..	..	..	..	..	..	..	..	..	..
5	Hilton Hotels Corp.	United States	1986	96 780	0.4	272	0.6	740	x	1	-	-	-	1	-	-	-	-	1
			1980	71 804	..	213	..	..	..	..	..	..	..	..	..	..	..	..	..
			1977	62 820	..	177	..	..	..	..	..	..	..	..	..	..	..	..	..
6	Quality Inns International [b]	United States	1986	95 393	8	1 028	10	99	x	-	-	3	5	8	1	-	-	1	9
			1980	41 415	8	368	7	..	..	..	..	..	..	..	..	..	..	..	..
			1977	30 298	3	285	3	..	..	..	..	..	..	..	..	..	..	..	..
7	Days Inns of America	United States	1986	79 000	0.7	443	1	95	x	-	-	-	-	-	-	-	-	-	-
			1980	44 000	0.3	316	0.3	..	..	..	..	..	..	..	..	..	..	..	..
			1977	39 173	0.2	297	0.3	..	..	..	..	..	..	..	..	..	..	..	..
8	Marriot Corp.	United States	1986	75 277	5	248	5	5 267	x	4	-	2	-	6	4	1	-	5	11
			1980	33 756	6	87	8	..	..	..	..	..	..	..	..	..	..	..	..
			1977	17 670	9	56	9	..	..	..	..	..	..	..	..	..	..	..	..
9	Trust House Forte Plc.	United Kingdom	1986	74 800	6	793	6	1 613	3	-	-	7	-	10	-	-	-	-	10
			1980	72 299	8	810	7	..	..	..	..	..	..	..	..	..	..	..	..
			1977	76 338	9	888	8	..	..	..	..	..	..	..	..	..	..	..	..
10	Accor	France	1986	62 410	..	534	..	1 312	13	-	-	48	-	61	10	4	2	16	77
			1980	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
			1977	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

Annex table B.15. (continued)

Rank	Company name	Home country	Year	Number of rooms: Total	Number of rooms: Percentage foreign	Number of hotels: Total	Number of hotels: Percentage foreign	Sales (Millions of dollars)	Foreign affiliates (Number): Developed countries: United States	Canada	Japan	Western Europe	Other	Subtotal	Developing countries: Latin America	Africa	Asia	Subtotal	TOTAL
11	Prime Motor Inns	United States	1986	60 000	..	500	..	245	x	-	-	-	-	-	-	-	-	-	
			1980	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
			1977	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
12	Balkan-tourist	Bulgaria	1986	60 000	...	460	..	..	..	..	..	..	..	..	..	..	..	..	..
			1980	51 443	..	684	..	..	..	..	..	..	..	..	..	..	..	..	..
			1977	54 465	..	575	..	..	..	..	..	..	..	..	..	..	..	..	..
13	Club Méditerranée	France	1986	53 733	..	212	..	666	3	3	3	29	2	40	21	8	11	40	80
			1980	36 333	..	132	..	..	..	..	..	..	..	..	..	..	..	..	..
			1977	21 479	..	76	..	..	..	..	..	..	..	..	..	..	..	..	..
14	Motel 6	United States	1986	45 793	-	409	-	69	x	-	-	-	-	-	-	-	-	-	-
			1980	32 405	-	309	-	..	..	..	..	..	..	..	..	..	..	..	..
			1977	23 121	-	235	-	..	..	..	..	..	..	..	..	..	..	..	..
15	Hyatt Hotels Corp.	United States	1986	45 000	25	84	33	624	x	1	-	-	-	1	-	-	1	-	2
			1980	34 000	..	58	..	..	..	..	..	..	..	..	..	..	..	..	..
			1977	24 506	..	51	..	..	..	..	..	..	..	..	..	..	..	..	..
16	Inter-Continental Hotels [d]	United Kingdom	1986	37 153	37	98	41	496	x	-	-	12	2	14	7	-	2	9	23
			1980	30 182	..	81	..	..	..	..	..	..	..	..	..	..	..	..	..
			1977	27 540	..	74	..	..	..	..	..	..	..	..	..	..	..	..	..
17	Intourist	Soviet Union	1986	37 000	..	107	..	..	..	..	..	..	..	..	..	..	..	..	..
			1980	25 000	..	150	..	..	..	..	..	..	..	..	..	..	..	..	..
			1977	19 846	..	60	..	..	..	..	..	..	..	..	..	..	..	..	..
18	Hilton International [e]	United States	1986	35 391	95	90	97	12 800	x	-	-	1	-	1	-	-	-	-	1
			1980	29 485	..	81	..	..	..	..	..	..	..	..	..	..	..	..	..
			1977	26 823	..	69	..	..	..	..	..	..	..	..	..	..	..	..	..
19	Westin Hotels, Resorts [f]	United States	1986	33 147	42	61	49	492	x	-	-	1	-	1	-	-	-	-	1
			1980	28 786	46	55	58	..	..	..	..	..	..	..	..	..	..	..	..
			1977	26 981	..	50	..	..	..	..	..	..	..	..	..	..	..	..	..
20	Radisson Hotel Corp. [g]	United States	1986	32 033	25	129	27	270	x	-	-	-	-	-	-	-	-	-	-
			1980	11 327	3	54	4	..	..	..	..	..	..	..	..	..	..	..	..
			1977	4 100	2	14	5	..	..	..	..	..	..	..	..	..	..	..	..

Annex table B.15. (continued)

Rank	Company name	Home country	Year	Number of rooms		Number of hotels		Sales (Millions of dollars)	Foreign affiliates (Number)										
									Developed countries						Developing countries				
				Total	Percentage foreign	Total	Percentage foreign		United States	Canada	Japan	Western Europe	Other	Subtotal	Latin America	Africa	Asia	Subtotal	TOTAL
21	Econo Lodges of America	United States	1986	32 000	0.4	391	0.5	144	x	-	-	-	-	-	-	-	-	-	-
			1980	8 313	..	137	..	..	..	..	..	..	..	..	..	..	..	..	..
			1977	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
22	Sol Hotels	Spain	1986	29 450	..	110	..	..	-	-	-	30	-	30	-	2	-	-	32
			1980	11 327	..	54	..	..	..	..	..	..	..	..	..	..	..	..	..
			1977	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
23	AIRCOA	United States	1986	26 864	..	112	..		x	-	-	-	1	1	-	-	-	-	1
			1980	10 000	..	34	..	204	..	..	..	..	..	..	..	..	..	..	..
			1977	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
24	Ladbroke Hotels Plc.	United Kingdom	1986	26 379	..	208	..	329	21	-	-	35	1	57	-	-	-	-	57
			1980	4 662	..	42	..	..	..	..	..	..	[e]	..	..	..	..	..	..
			1977	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
25	Super 8 Hotels Inc.	United States	1986	25 655	0.3	402	0.5	..	x	-	-	-	-	-	-	-	-	-	-
			1980	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
			1977	..	..	..	..		..	..	..	..	..	..	..	..	..	..	..

Source: UNCTC, based on various sources, including own inquiries.

[a] Subsidiary of ITT.
[b] Subsidiary of Manor Care.
[c] Subsidiary of Reliance Group.
[d] Owned by Grand Metropolitan, United Kingdom.
[e] Taken over by Ladbroke Plc, United Kingdom in 1987.
[f] Owned by Allegis Group.
[g] Owned by Carlson Companies Inc.

Annex table B.16. The 20 largest fast-food and restaurant chains, 1976, 1980 and 1986

Rank	Name	Parent company	Home country	Year	Sales (Millions of dollars)	Number of Units		Foreign affiliates (Number)										
								Developed countries						Developing countries				
						Total	Abroad	United States	Canada	Japan	Western Europe	Others	Subtotal	Latin America	Africa	Asia	Subtotal	Total
1	McDonald's Corporation		United States	1986	12 400	9 410	2 138	x	1	-	5	2	8	-	-	-	-	8
				1980	6 226	6 263	..	..	..	..	..	..	..	..	..	..	..	..
				1976	3 036	3 756	..	..	..	..	..	..	..	..	..	..	..	..
2	Burger King Corporation	The Pillsbury Corporation	United States	1986	4 500[a]	5 024	451	x	1	-	5	1	7	2	-	1	3	10
				1980	2 007	2 950	..	..	..	..	..	..	..	..	..	..	..	..
				1976	920	1 888	..	..	..	..	..	..	..	..	..	..	..	..
3	Kentucky Fried Chicken Corporation	Pepsico Inc.	United States	1986	3 500	6 575	1 855	x	-	1	4	16	21	-	-	2	2	24
				1980	2 472	6 326	..	..	..	..	..	..	..	..	..	..	..	..
				1976	1 600	5 055	..	..	..	..	..	..	..	..	..	..	..	..
4	Wendy's International Corporation		United States	1986	2 747	3 727	231	x	1	1	4	-	6	-	-	-	-	6
				1980	1 209	2 034	82	..	..	..	..	..	..	..	..	..	..	..
				1976	189	520	3	..	..	..	..	..	..	..	..	..	..	..
5	Pizza Hut Inc.	Pepsico Inc.	United States	1986	2 600	5 650	633	x	-	-	-	2	2	-	-	-	-	2
				1980	985	3 985	..	..	..	..	..	..	..	..	..	..	..	..
				1976	493	2 820	..	..	..	..	..	..	..	..	..	..	..	..
6	Hardee's Food System, Inc.	Imasco Co. (Canada)	United States	1986	2 500	2 711	37	3	-	-	-	-	3	-	-	-	-	3
				1980	920	1 320	..	..	..	..	..	..	..	..	..	..	..	..
				1976	327	913	..	..	..	..	..	..	..	..	..	..	..	..
7	International Dairy Queen Inc.		United States	1986	1 570	4 933	580	x	2	1	-	-	3	-	-	-	-	3
				1980	1 020	4 833	..	..	..	..	..	..	..	..	..	..	..	..
				1976	684	4 622	..	..	..	..	..	..	..	..	..	..	..	..
8	Domino's Pizza		United States	1986	1 470	3 608	100	x	-	-	-	-	-	-	-	-	-	-
				1980	..	..	..	..	..	..	..	..	..	..	..	..	..	..
				1976	..	..	..	..	..	..	..	..	..	..	..	..	..	..
9	Taco Bell Inc.	Pepsico Inc.	United States	1986	1 130	2 470	37	x	-	-	-	-	-	-	-	-	-	-
				1980	391	1 270	..	..	..	..	..	..	..	..	..	..	..	..
				1976	170	673	..	..	..	..	..	..	..	..	..	..	..	..
10	Denny's Inc.		United States	1986	1 100	1 176	56	x	2	-	-	-	2	2	-	1	3	5
				1980	541	802	138	..	..	..	..	..	..	..	..	..	..	..
				1976	247	493	38	..	..	..	..	..	..	..	..	..	..	..

Annex table B.16. (continued)

Rank	Name	Parent company	Home country	Year	Sales (Millions of dollars)	Number of Units		Foreign affiliates (Number)										
								Developed countries						Developing countries				
						Total	Abroad	United States	Canada	Japan	Western Europe	Others	Subtotal	Latin America	Africa	Asia	Subtotal	Total
11	Big Boy Restaurants Inc.	Marriott Corp.	United States	1986	1 002	919	60	x	-	-	-	-	-	-	-	-	-	-
				1980	917	1 136	..	..	..	..	..	..	..	..	..	..	..	..
				1976	..	..	..	..	..	..	..	..	..	..	..	..	..	..
12	Arby's Inc.	Royal Crown Companies Inc.	United States	1986	900	1 685	71	x	-	-	-	-	-	-	-	-	-	-
				1980	478	1 053	..	..	..	..	..	..	..	..	..	..	..	..
				1976	..	514	..	..	..	..	..	..	..	..	..	..	..	..
13	Red Lobster	General Mills Inc.	United States	1986	898	430	..	x	-	-	-	-	-	-	-	-	-	-
				1980	500	290	..	..	..	..	..	..	..	..	..	..	..	..
				1976	..	..	..	..	..	..	..	..	..	..	..	..	..	..
14	Long John Silver's Seafood Shoppe	Jerrico	United States	1986	697	1 410	8	x	-	-	-	-	-	-	-	-	-	-
				1980	475	1 074	..	..	..	..	..	..	..	..	..	..	..	..
				1976	..	..	..	..	..	..	..	..	..	..	..	..	..	..
15	Ponderosa		United States	1986	680	654	34	x	-	-	-	-	-	-	-	-	-	-
				1980	488	694	..	..	..	..	..	..	..	..	..	..	..	..
				1976	271	544	..	..	..	..	..	..	..	..	..	..	..	..
16	Dunkin Donuts		United States	1986	648[b]	1 539	142	x	-	-	-	-	-	-	-	-	-	-
				1980	312	1 055	..	..	..	..	..	..	..	..	..	..	..	..
				1976	211	836	..	..	..	..	..	..	..	..	..	..	..	..
17	Shoney's		United States	1986	645	542	..	..	..	..	..	..	..	..	..	..	..	..
				1980	..	..	..	..	..	..	..	..	..	..	..	..	..	..
				1976	191	305	..	..	..	..	..	..	..	..	..	..	..	..
18	Jack in the Box	Foodmaster	United States	1986	640	850	..	..	..	..	..	..	..	..	..	..	..	..
				1980	415	803	..	..	..	..	..	..	..	..	..	..	..	..
				1976	..	..	..	..	..	..	..	..	..	..	..	..	..	..
19	Sizzler	Collins Foods	United States	1986	605	544	..	..	..	..	..	..	..	..	..	..	..	..
				1980	275	472	..	..	..	..	..	..	..	..	..	..	..	..
				1976	..	..	..	..	..	..	..	..	..	..	..	..	..	..
20	Church's Fried Chicken		United States	1986	577	1 532	56	x	-	-	-	-	-	-	-	-	-	-
				1980	455	472	..	..	..	..	..	..	..	..	..	..	..	..
				1976	174	575	..	..	..	..	..	..	..	..	..	..	..	..

Source: UNCTC, based on various sources, including own inquiries.

a Fiscal year 1986.

b Fiscal year 1986.

ANNEX C

CHARACTERISTICS OF TRANSNATIONAL SERVICE AND MANUFACTURING CORPORATIONS AND OTHER DATA

Annex table C.1. United States: R&D expenditures as percentage of sales and R&D employment as percentage of total employment in services, 1982
(Percentage)

Industry	Parent companies [a]		Foreign affiliates [b]					
	Research and development		R&D expenditures as percentage of sales				R&D employment as percentage of total employment	
	Expenditure as percentage of sales	Employment as percentage of total employment	By industry of affiliate			By industry of parent	All countries, by industry of:	
			All countries	Developed countries	Developing countries	All countries	Affiliate	Parent
Oil and gas field services	..	1.58	0.07	0.24	0.03	0.13	-	..
Petroleum wholesale trade	..	0.89	0.01	0.01	-	0.03	0.45	..
Other petroleum services [c]	..	0.37	0.01	-	-	-	-	-
Wholesale trade	..	2.04	0.21	0.23	0.04	0.06	1.33	0.79
Durable goods	1.21	3.82	0.23	0.26	0.01	0.11	1.44	0.98
Non-durable goods	..	0.44	0.17	0.19	0.06	0.03	0.92	0.29
Financial services, excluding banking	0.12	0.63	-	0.01	-	..	-	3.07
Finance, except banking	-	-	-	-	-	-	-	-
Insurance	0.13	0.70	-	-	-	..	-	4.14
Real estate	-	-	-	..	..	..	-	-
Other services	0.38	1.29	0.26	0.26	0.22	0.08	1.31	0.39
Hotel etc.	-	-	-	-	-	-	-	-
Business services	0.87	3.73	0.50	0.47	0.61	0.15	2.60	0.63
Advertising	-	-	-	-	-	-	-	-
Manangement, consulting, and public relations	-	..	0.56	0.64	-	0.36	2.19	-
Equipment rental	0.11	-	-	..	-	-	-	-
Computer services	3.24	7.03	0.35	0.26	-	0.42	2.0	1.96
Other business services	0.41	..	1.33	..	..	0.15	5.26	0.62
Motion pictures	-	-	-	-	-	-	-	-
Engineering, architectural	..	..	0.03	0.04	-	0.08	-	1.03
Health services	..	..	-	-	-	-	-	-
Other services	0.01	-	-	-	-	-	-	-
Construction	0.07	0.33	0.02	0.04	-	-	0.14	-
Transportation, communications, and public utilities	..	1.02	-	-	-	..	-	..
Retail trade	0.3	..	0.01	0.01	-	0.02	-	..
Total services	0.11	1.05	0.10	0.13	0.02	0.27	0.75	1.33
Memorandum								
Petroleum and coal products	0.57	2.39	0.18	0.21	0.04	0.14	1.06	0.97
Manufacturing	3.03	4.91	1.15	1.31	0.46	0.83	2.27	1.94

Source: United States, Department of Commerce, *U.S. Direct Investment Abroad: Benchmark Survey Data* (Washington, Department of Commerce, 1985).

a Parent companies of majority-owned non-bank foreign affiliates.
b Majority-owned non-bank foreign affiliates.
c Tankers, pipelines, storage, gasoline service stations.

Annex table C.2. United States: Capital intensity and compensation per employee in services, 1982
(Thousands of dollars)

Industry	Capital intensity		Compensation per employee						
	Parent companies [a]			Foreign affiliates [b]					
				By industry of affiliate			By industry of parent		
	Net property, plant and equipment per employee	Total assets per employee	Parent companies	All countries	Developed countries	Developing countries	All countries	Developed countries	Developing countries
Oil and gas field services	57.2	150.8	35.1	27.2	25.6	25.5	26.7	23.1	..
Petroleum wholesale trade	164.0	611.5	33.2	25.5	28.8	20.2	21.2	..	12.6
Other petroleum services	197.1	413.6	36.6	18.4	24.1	17.8	..	..	..
Wholesale trade	20.1	103.7	21.6	21.7	23.2	15.1	14.3	19.1	8.0
Durable goods	18.6	121.7	24.7	22.8	23.9	17.7	15.0	19.9	8.4
Non-durable goods	21.4	87.4	18.7	18.2	21.0	10.0	12.2	16.8	7.2
Banking	..	3 608.0 [c]	23.3 [c]	16.5 [d]	19.2 [d]	13.7 [d]	..	..	..
Financial services, excluding banking	22.3	673.6	26.3	20.0	21.3	13.0	22.1	20.3	26.4
Finance, except banking	10.0	1 085.5	47.7	22.2	22.3	21.4	27.3	31.5	15.9
Insurance	23.6	629.4	24.1	18.9	20.6	9.6	18.8	19.8	10.4
Real estate	166.7	..	33.3	10.0	..	..	17.1	17.1	..
Other services	20.3	53.0	17.9	19.1	20.9	13.8	17.3	18.8	12.2
Hotel, etc.	18.2	28.4	11.6	10.9	14.5	7.6	9.4	..	..
Business services	16.5	52.0	21.0	21.8	23.5	13.7	19.6	21.4	11.8
Advertising	10.7	73.4	32.0	24.1	25.6	16.3	25.1	26.5	18.1
Manangement, consulting, and public relations	17.2	129.5	35.5	43.1	42.1	53.3	33.8	33.0	50.0
Equipment rental	592.6	816.7	24.8	21.7	22.0	19.5	20.0	20.0	10.0
Computer services	14.1	45.2	22.6	25.0	27.1	16.5	25.3	26.5	18.8
Other business services	5.2	23.6	16.0	15.4	17.5	8.0	13.5	15.4	7.2
Motion pictures	7.0	91.0	14.3	11.3	12.4	6.0	17.5	17.1	10.0
Engineering, architectural etc.	26.1	107.5	23.6	32.9	32.6	35.1	24.6	23.2	..
Health services	21.8	41.4	15.8	14.0	10.8	16.3	10.6	10.2	11.2
Other services	29.9	63.2	19.9	13.7	12.3	21.5	11.2	..	..
Construction	16.5	54.4	33.6	20.9	25.1	17.1	28.4	37.4	20.2
Transportation, communications, and public utilities	123.7	168.3	34.1	14.0	17.9	8.8	13.8	16.9	9.4
Retail trade	11.2	46.8	14.3	10.0	10.5	7.1	10.0	10.3	7.4
Total services	52.3	192.0	24.2	18.8	19.8	15.0	17.6	17.4	16.2
Memorandum									
Petroleum and coal products	187.7	380.0	36.3	31.8	31.8	31.6	26.5	29.7	20.1
Manufacturing	29.5	97.4	29.8	16.9	20.6	8.7	17.3	21.0	9.1

Source: See annex table C.8.

a Parent companies of majority-owned foreign affiliates.
b Majority-owned foreign affiliates.
c For all parents.
d Figures refer to all banking affiliates, not only majority-owned ones.

Annex table C.3. United States foreign affiliates: Total assets and net property, plant and equipment per employee in services, 1982
(Thousands of dollars)

Industry	By industry of affiliate [a]				By industry of parent [b]			
	Total assets per employee			Net PP & E per employee	Total assets per employee			Net PP & E per employee
	All countries	Developed countries	Developing countries	All countries	All countries	Developed countries	Developing countries	All countries
Oil and gas field services	154.4	100.9	123.7	59.6	203.4	121.6	..	60.6
Petroleum wholesale trade	658.6	589.6	767.7	85.7	497.8	..	867.5	80.1
Other petroleum services	538.8	243.0	281.9	323.5	438.1	..	..	247.0
Wholesale trade	122.2	121.5	125.2	16.7	107.6	134.1	70.4	21.8
Durable goods	113.5	113.7	112.7	17.5	80.4	104.4	..	17.1
Non-durable goods	147.8	146.9	150.2	14.4	179.9	224.0	..	34.2
Banking [c]	3 608.3	3 835.9	3 337.9	..	x	x	x	x
Financial services, excluding banking	1 547.8	937.7	4 815.4	23.7	163.4	169.5	147.2	12.0
Finance, except banking	2 643.2	998.9	13 423.1	16.5	619.3	561.3	777.7	9.8
Insurance	587.7	486.7	1 141.0	13.6	179.5	158.6	347.4	11.2
Real estate	748.0	..	..	432.0	..	212.9	..	..
Other services	62.9	61.0	68.4	16.5	66.7	59.2	..	14.4
Hotel etc.	30.4	34.1	26.9	16.7	34.4	..	..	16.7
Business services	70.2	65.6	91.9	19.3	52.2	53.0	48.3	6.8
Advertising	53.9	57.2	36.5	5.3	58.4	61.1	44.2	4.8
Management, consulting, and public relations	146.4	130.8	353.3	14.9	115.0	114.3	125.0	7.2
Equipment rental	126.4	97.6	314.0	52.9	726.7	..	..	75.0
Computer services	81.1	81.5	84.1	34.5	66.7	65.8	71.2	14.5
Other business services	29.0	30.3	24.3	6.6	26.6	..	..	5.7
Motion pictures	205.7	230.6	81.0	4.0	228.3	..	..	6.7
Engineering, architectural etc.	64.4	51.2	135.9	5.5	96.3	71.6	..	26.9
Health services	64.4	45.0	78.5	10.3	96.8	81.4	117.1	19.6
Other services	53.0	48.4	79.3	18.6	64.5	..	..	22.6
Construction	62.1	63.9	60.3	7.3	79.5	66.1	..	17.4
Transportation, communications, and public utilities	138.1	68.0	137.6	77.9	148.5	85.5	230.6	29.0
Retail trade	27.4	28.4	21.1	9.6	41.4	33.3	..	10.7
Total services	214.5	163.6	348.0	26.1	130.8	100.2	171.2	20.7
Memorandum								
Petroleum and coal products	291.8	452.3	86.2	125.2	516.7	490.7	550.0	198.3
Manufacturing	56.7	64.6	39.0	19.6	80.0	84.1	70.3	20.4

Source: See annex table C.1.

Note: x = Not applicable.

a Majority-owned foreign affiliates.
b Majority-owned foreign non-bank affiliates.
c Figures for banking refer to all affiliates, not only to majority-owned ones.

Annex table C.4. United States: Trade propensities [a] in services, 1982
(Percentage)

Industry	Parent companies [b]			Foreign affiliates total exports [c]	
	Exports		Imports from affiliates	Affiliates classified by industry of	
	Total	To affiliates		Affiliate	Parent
Oil and gas field services	14.08	..	0.68	5.6	12.8
Petroleum wholesale trade	12.55	..	1.39	46.2	62.7
Other petroleum services	0.76	..	0.19	2.6	6.2
Wholesale trade	20.78	4.59	1.57	41.7	56.3
Durable goods	7.24	..	..	35.3	32.4
Non-durable goods	27.32	..	..	51.3	69.2
Financial services, excluding banking	2.01	0.67	0.41	37.8	19.1
Finance, except banking	2.89	..	..	53.9	28.2
Insurance	1.93	..	0.28	26.3	18.5
Real estate	-	-	-	..	..
Services	6.00	0.82	0.35	19.8	20.1
Hotel etc.	2.56	..	0.06	0.5	5.6
Business services	5.71	0.99	0.38	21.2	13.7
Advertising	2.24	..	..	0.8	0.8
Manangement, consulting, and public relations	5.43	..	0.20	69.2	16.8
Equipment rental	16.90	..	..	5.8	79.6
Computer services	6.86	..	0.53	15.5	22.2
Other business services	5.39	..	..	16.3	13.2
Motion pictures	3.13	0.08	..	46.4	34.3
Engineering, architectural etc.	23.39	2.47	0.58	27.8	32.9
Health services	1.73	..	..	..	9.7
Other services	2.94	..	..	..	7.2
Construction	9.73	..	0.18	9.5	37.9
Transportation, communications, and public utilities	2.35	0.22	1.14	9.2	3.4
Retail trade	0.39	..	..	2.2	5.6
Total services	6.11	1.29	0.92	36.0	40.3
Memorandum					
Petroleum and coal products	20.99	11.00	6.81	16.6	31.3
Manufacturing	11.10	4.32	2.88	33.9	33.8

Source: See annex table C.8.

a Exports/imports as percentage of sales.
b Parent companies of majority-owned foreign affiliates.
c Majority-owned foreign affiliates.

Annex table C.5. United States foreign affiliates: [a]
Extent of trade linkages with parent companies and with the United States in services, 1982

Industry	By industry of parent: Exports to Total exports	Exports to United States	Percentage of total sales: Parents	Imports from parents	Exports to parents as percentage of exports	Percentage of total sales: Exports to United States by A	B	C	By industry of affiliate: Exports to parents by A	Exports to parents as percentage of exports by A	Import of goods from United States as percentage of affiliates sales ofgoods by A	B	C
Oil and gas field services	12.8	..	1.5	..	11.6	..	..	..	0.3	4.9	..	..	..
Petroleum wholesale trade	62.7	4.3	2.9	..	4.7	..	..	..	8.2	17.8	0.7	..	..
Other petroleum services	6.2	5.7	4.8	..	78.6	..	..	..	..	..	..	..	..
Wholesale trade	56.3	11.4	4.0	11.8	7.2	4.8	4.5	6.9	2.8	6.8	12.8	12.1	17.9
Durable goods	32.4	..	..	..	..	..	..	..	3.0	8.4	16.1	14.8	26.7
Non-durable goods	69.2	..	..	..	..	..	..	..	2.7	5.2	8.1	8.0	8.6
Financial services, excluding banking	19.1	6.7	3.0	5.0	15.8	23.0	5.5	48.9	17.6	46.5	..	..	..
Finance, except banking	28.2	16.3	..	..	..	..	..	..	33.4	61.9	..	..	..
Insurance	18.5	5.2	2.5	..	13.6	..	..	..	6.3	24.0	..	..	..
Real estate	..	..	..	..	..	..	..	..	1.0	..	..	..	..
Other services	20.1	2.8	2.0	4.7	9.9	5.4	5.9	3.2	5.2	26.3	..	..	..
Hotel etc.	5.6	..	1.0	..	17.7	..	..	..	..	..	..	..	..
Business services	13.7	2.6	1.8	4.8	13.4	..	..	..	9.5	44.9	..	..	..
Advertising	0.8	0.3	..	..	..	..	..	..	0.1	9.1	..	..	..
Manangement, consulting, and public relations	16.8	1.1	1.1	..	6.5	..	..	..	32.4	46.9	..	..	..
Equipment rental	79.6	..	..	..	..	..	..	..	0.5	8.4	..	..	..
Computer services	22.2	4.2	3.8	..	17.1	..	..	..	4.1	26.1	..	..	..
Other business services	13.2	..	..	..	..	..	..	..	10.0	61.2	..	..	..
Motion pictures	34.3	..	..	0.3	..	..	..	..	..	..	..	..	..
Engineering, architectural etc.	32.9	2.4	1.2	5.1	3.6	..	..	..	..	..	..	..	..
Health services	9.7	8.8	..	..	..	..	..	..	-	..	..	..	..
Other services	7.2	..	..	..	..	..	..	..	..	..	..	..	..
Construction	3.4	1.1	0.5	..	15.0	..	..	..	0.3	2.7	..	..	..
Transportation, communications, and public utilities	37.9	28.4	24.6	4.8	64.9	..	..	..	5.5	60.1	..	..	..
Retail trade	5.6	..	..	..	..	..	..	..	0.1	6.7	..	..	..
Total services	40.3	8.0	4.3	8.3	9.9	7.7	4.8	20.8	5.8	15.6	..	..	..
Memorandum													
Petroleum and coal products	31.3	14.6	13.0	20.9	41.5	..	..	..	..	..	0.6	..	..
Manufacturing	33.8	9.4	8.1	12.2	24.1	9.7	9.1	12.1	8.3	24.6	13.1	12.7	14.5

Source: See annex table C.8.
Note: A = Affiliates in all countries. B = Affiliates in developed countries. C = Affiliates in developing countries.
a Majority-owned foreign affiliates.

Annex table C.6. United States: Selected uses of service output and sources of input into service industries, 1977

Uses of output
(Millions of dollars)

Type of service output [a]	*Primary products*	*Manufacturing*	*Own industry*	*Construction*	*Other services, including Government*	*Total intermediate*	*Export*	*Total output*
Transport and warehousing	2 440	31 543	16 634	5 884	18 939	75 440	9 756	128 264
Communications, excluding television and radio	417	4 532	946	1 052	16 457	23 404	985	52 868
Trade	6 808	57 467	4 973	23 354	20 080	112 682	12 416	386 171
Finance and insurance	2 402	7 909	25 270	2 310	20 861	58 752	630	128 578
Real estate and rental	12 124	8 049	17 816	629	40 822	79 438	3 705	279 243
Hotels, personal and repair services, excluding auto	259	3 664	674	319	6 008	10 924	29	46 129
Business services	2 957	36 521	9 514	15 191	67 147	131 330	3 481	161 969
Eating and drinking places	462	6 841	158	199	14 493	22 153	81	87 839
Auto repairs and services	798	3 289	173	1 168	11 742	17 170	2	43 380
Total above	28 667	159 825	76 158	50 104	216 549	531 293	31 085	1 314 441

Sources of input
(Percentage of total inputs)

	Type of input								
	Intermediate input						*Value added*		
Service industry	*Primary production*	*Manufacture*	*Own industry*	*Construction*	*Other service industry*	*Total intermediate*	*Compensation of employees*	*Industrial business taxes*	*Property-type income*
Transport and warehousing	0.01	17.8	13.2	..	12.5	43.5	39.3	3.4	13.8
Communications, excluding television and radio	..	10.2	1.8	..	8.0	20.0	34.7	10.5	34.8
Wholesale and retail trade	0.16	4.5	1.3	..	22.5	28.5	42.1	13.8	15.6
Finance and insurance	..	2.9	19.6	..	16.9	39.4	40.8	4.3	15.6
Real estate and rental	0.01	8.2	6.5	..	6.3	21.0	2.4	17.3	59.3
Hotels, personal and repair services, excluding auto	0.01	14.2	1.5	..	20.2	35.9	36.0	3.7	24.4
Business services	..	6.2	7.1	..	13.1	26.4	39.5	1.0	33.1
Eating and drinking places	0.22	35.3	0.2	..	19.9	55.6	30.3	3.9	10.2
Auto repair and service	..	26.1	0.4	..	20.7	47.2	25.1	2.6	25.2

Source: United States, Department of Commerce, "The input-output structure of the US economy, 1977", *Survey of Current Business*, vol. 64, No. 5 (May 1984).

a These are almost identical to the output of the corresponding industries except in the case of business services, $26 billion of which were produced in the printing and publishing and radio and television broadcasting industries.

Annex table C.7. Per capita GDP, consumption and price levels of services in selected developing countries, 1975 (United States = 100)

Country	Per capita GDP	Consumption [a]				Price levels [b]			
		Total	Electricity	Air transport	Telephone, telegraph	Electricity	Air transport	Telephone, telegraph	All services
Malawi	4.9	4.5	0.7	0.1	0.1	194	111	161	47
Kenya	6.6	8.1	0.2	4.1	0.2	535	109	206	60
India	6.6	7.1	0.5	0.1	0.3	213	120	221	34
Pakistan	8.2	8.1	2.2	2.9	0.3	125	35	140	48
Sri Lanka	9.3	10.6	0.9	0.9	0.2	147	100	310	36
Zambia	10.3	11.4	3.9	0.1	0.4	64	69	48	61
Thailand	13.0	10.0	2.5	0.8	0.8	150	70	96	62
Philippines	13.2	15.1	5.6	2.1	0.8	71	58	101	38
Korea, Republic of	20.7	16.8	5.3	1.7	8.5	262	38	39	60
Malaysia	21.5	21.6	4.8	6.6	1.7	234	112	182	68
Colombia	22.4	25.5	32.6	18.0	19.4	25	91	33	65
Jamaica	24.0	30.6	15.1	6.7	27.6	108	63	20	64
Syrian Arab Republic	25.0	17.3	4.7	0.2	1.3	254	168	98	75
Brazil	25.2	24.2	11.9	1.3	4.8	218	96	84	65
Mexico	34.7	31.4	22.4	7.7	16.7	158	69	43	66
Iran	37.7	25.7	6.7	3.3	2.8	172	90	110	77
Uruguay	39.6	51.4	27.2	12.6	13.7	133	26	119	63
Median	20.7	16.8	4.8	2.1	1.3	150	70	98	61

Source: Irving B. Kravis, A. Heston and R. Summers, *World Product and Income. International Comparisons of Real Gross Product* (Baltimore, The Johns Hopkins University Press, 1982).

a At international price.
b Relative to price levels for GDP.

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