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GENERAL DISCUSSION ON TRANSNATIONAL CORPORATIONS IN THE WORLD ECONOMY AND TRENDS IN FOREIGN DIRECT INVESTMENT IN DEVELOPING COUNTRIES

Growth of foreign direct investment in the 1980s: trend or bulge?

Report of the Secretary-General

SUMMARY

Historically, foreign-direct-investment flows have followed an upward trend with some year-to-year fluctuations. During the second half of the 1980s, however, investment flows surged at an average annual rate of growth of 28 per cent, the highest ever experienced. Fluctuations in investment flows concur with the expansion of the world economy after 1982 and the ensuing recession, or slow growth, after 1989. In the past, fluctuations in investment flows have also responded to cyclical fluctuations in the growth rate of the world economy after a time lag.

Nevertheless, cyclical factors alone do not explain the size of the surge in investment flows between 1985 and 1990. Other factors that have played a role during that period relate to the response of transnational corporations to policy changes and to structural changes in the world economy. Policy-related factors include trade liberalization, changes in exchange rates, the liberalization of foreign-direct-investment regimes, privatization, non-tariff barriers and regional integration schemes. Structural factors include the existence of a stock of foreign direct investment already in place and the emergence of an integrated international production system. Policy-related and structural factors suggest that investment flows are likely to continue to increase, although cyclical factors that led to the fall in these flows in 1991 continue to exercise an influence.

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INTRODUCTION

1. In concluding its general discussion at its eighteenth session on transnational corporations in the world economy and trends in foreign direct investment in developing countries, the Commission on Transnational Corporations requested the Secretariat to continue its work on foreign direct investment and the role of transnational corporations in development and to submit reports dealing with those matters to the Commission at its nineteenth session. The present report is in response to that request. The Commission has also before it reports on trends in foreign direct investment (E/C.10/1993/2), on the emergence of integrated international production (E/C.10/1993/4) and on the universe of transnational corporations (E/C.10/1993/5), all dealing with aspects of the matters mentioned above.

2. Foreign-direct-investment outflows grew rapidly during the second half of the 1980s, reaching a peak of $234 billion in 1990 and falling by 23 per cent in 1991. Investment flows during the past two decades have followed an upward trend with year-to-year fluctuations. The exclusion of Japan, whose outward investments increased consistently from $6 billion to $48 billion between 1985 and 1990, does not alter that trend. Two periods of surges followed by subsequent falls in investment flows clearly stand out: during 1978-1981, investment flows increased at an average annual rate of 11 per cent, and during 1986-1990, investment flows rose at an average annual rate of 28 per cent. The fall in 1991 (which may continue in subsequent years) has marked the end of the most rapid expansion of investment flows ever experienced, surpassing by far the previous surge. While this pattern holds for investment inflows to developed countries, for developing countries the surge in investment flows continued in 1991, having fallen somewhat in 1989. Investment inflows to the countries of Central and Eastern Europe have also grown rapidly since the liberalization of their investment regimes in the late 1980s, although the rate of growth slowed down in 1991, as discussed in E/C.10/1993/2.

3. These observations raise the question of the extent to which the substantial increase in global foreign-direct-investment flows during 1986-1990 was in response to the rapid growth of the world economy following the recession of the early 1980s or whether additional circumstances played a role in explaining that increase and, if so, whether these circumstances are likely to continue to exercise an influence in the future. A number of factors - broadly categorized into cyclical, policy-related and structural - help to explain the increase and subsequent fall in investment flows in the 1980s as well as their likely future performance.

(a) Cyclical factors. As in domestic companies, fluctuations in economic activity in home and host countries associated with business cycles are an important factor influencing the investment decisions of transnational corporations. On the other hand, the long-term strategic objectives of transnational corporations concerning various economies - for example, to preserve or expand market share abroad or to penetrate new markets - also exert an influence on their investment decisions. Thus, transnational corporations may discount the impact of low growth to the extent that they wish to accomplish a specific set of objectives in line with their overall long-term strategy. For example, the fall in domestic output of Central and Eastern

European countries has not inhibited transnational corporations from establishing a presence in those potentially lucrative markets. 1/ Nevertheless, a slow-down in economic growth, even if perceived as a temporary and short-term phenomenon, is likely to constrain planned investments by transnational corporations and lead them to either postpone their investment outlays or, if slow growth persists, to revise their plans downwards;

(b) Policy-related factors. Transnational corporations may respond to policy changes that have an impact on their overall strategy, and their response may continue even after the initial policy adjustment has taken place. Significant policy changes that occurred during the second half of the 1980s related to the liberalization of trade regimes; the Plaza Accord in September 1985, in which the devaluation of the dollar in relation to the yen contributed to a wave of outward investment by transnational corporations from Japan; the liberalization of foreign-direct-investment regimes and the introduction of legislation in many countries that allows participation of transnational corporations in the privatization of state enterprises; and protectionist policies in the form of non-tariff barriers became more pronounced in some key markets and industries leading to defensive investments. Other significant policy changes that were introduced for the first time during the second half of the 1980s related to regional integration and included the completion of the European Community Single Market by 1993 and the conclusion of the Free Trade Agreement between the United States and Canada (with prospects of expanding it into a North American Free Trade Area);

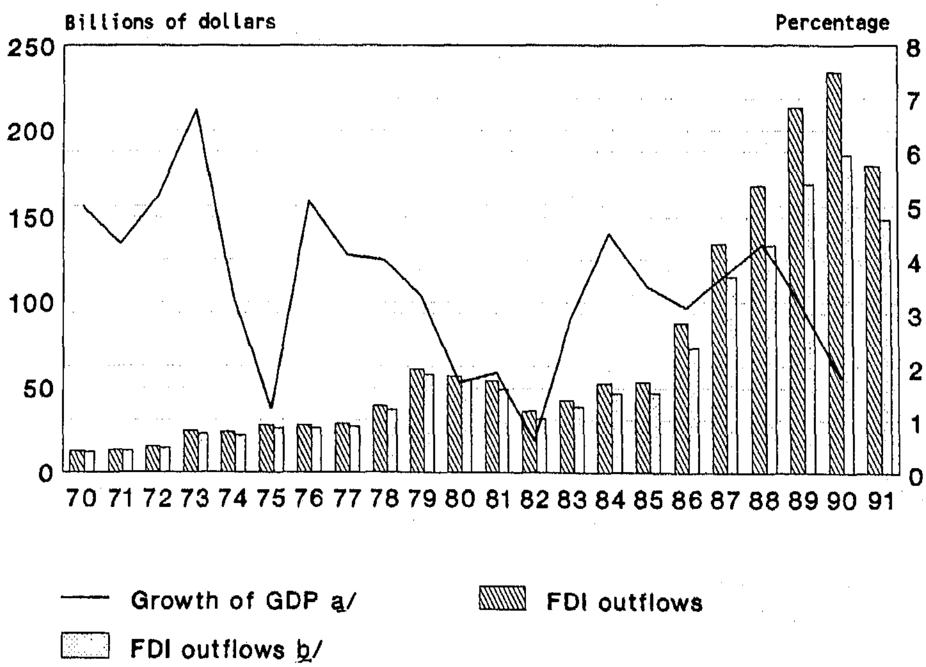
(c) Structural factors. These factors relate to changes in the structure of the world economy, some of which were brought about by the past activities of transnational corporations and their impact on the growth of foreign direct investment. The existence of a sizeable stock of foreign direct investment and the need to maintain its productive capacity, as well as the magnitude, increasing complexity and integration of international production, facilitated by technological developments, are factors that are likely to stimulate the future growth of investment flows and could influence their rate of growth. Moreover, shortages of skilled and unskilled labour and the high cost of labour in some developed countries and in the newly industrializing economies are factors that gave - and continue to give - an extra push to transnational corporations to invest abroad. Finally, sectoral and country imbalances in the extent of transnationalization, though not of a structural nature, raise the question of whether investment flows will continue to increase in order to alleviate these imbalances.

The growth in foreign direct investment during the second half of the 1980s is characterized by the interplay of cyclical, policy-related and structural factors. They are reviewed below in turn.

I. CYCLICAL FACTORS

4. There appears to be a pro-cyclical relationship between investment flows and the growth of world-wide output (fig. 1). The decision by transnational corporations to invest abroad is affected by the growth and economic conditions both at home and abroad. There is usually a great deal of overlap between growth conditions in the home country and abroad, since the increasing interdependence of the world economy implies that cyclical fluctuations in, typically, large developed economies will be transmitted to other countries. Cyclical fluctuations in economic activity at home impact the level and growth rate of investment outflows by influencing investment plans of parent companies, as well as their ability to raise the necessary capital to finance these investments. Similarly, fluctuations in growth rates abroad are also likely to affect the level and growth of investment inflows by influencing expectations of foreign investors regarding potential future earning.

Figure I. Foreign-direct-investment outflows and rate of growth of real gross domestic product, 1970-1991



<u>Source</u>: United Nations Secretariat, Department of Economic and Social Development, Transnational Corporations and Management Division, based on International Monetary Fund, balance-of-payments tape, retrieved in October 1992; OECD estimates; <u>World Investment Directory, Global Trends</u> (United Nations publication, forthcoming); and United Nations Secretariat, Department of Economic and Social Development, Development Policy and Analysis Division, data bank of world development statistics.

<u>a</u>/ 1980 prices.

<u>b</u>/ Excluding Japan.

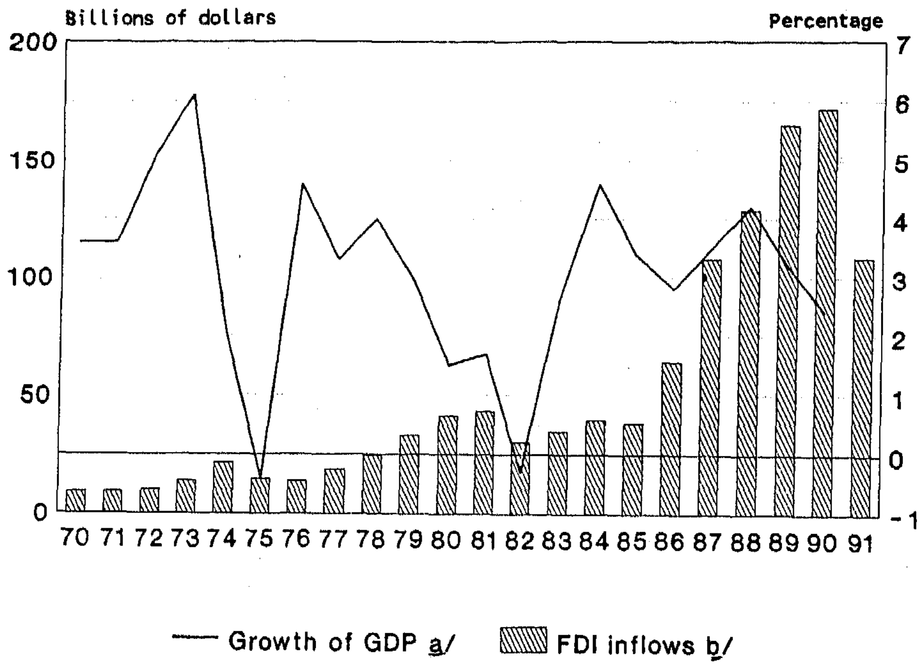
A. The perspectives of home and host countries

5. A close correlation has been observed between foreign-direct-investment outflows and the growth of domestic output of major home countries over time. 2/ Falling or slowly growing domestic demand in home countries is likely to reduce the profits of parent companies and lead them to scale down operations or postpone the undertaking of new investments both at home and abroad. A period of recession in the home country, especially if prolonged, can lead transnational corporations to revise their investment plans downwards (at least temporarily), even when their long-term strategies suggest the opposite. On the other hand, comparatively high growth rates in host countries can give transnational corporations an impetus to invest abroad, even when faced with deteriorating conditions at home. Growing host-country markets may be considered particularly attractive by transnational corporations located in countries experiencing a cyclical downturn and may induce them to invest abroad in spite of unfavourable growth conditions in their home countries. Nevertheless, the global nature of economic recessions or booms suggests that, at least among developed countries, differentials in growth rates between home and host countries are not likely to play a major role in the investment decisions of transnational corporations.

6. There appears to be a close relationship between foreign-direct-investment inflows to developed countries and changes in their rates of domestic economic growth (fig. II). Investment inflows in developed countries appear to have exhibited a pro-cyclical path in response to the growth of domestic output in these countries, with peaks in domestic economic growth followed by peaks in investment flows. The pro-cyclical nature of the relationship between investment flows and domestic growth in developed countries, coupled with the fact that most foreign direct investment is concentrated in developed countries (intra-"triad" foreign direct investment - between the European Community, the United States and Japan - accounted for 70 per cent of world-wide inflows and 83 per cent of world-wide outflows in 1990) explains, to a certain extent, the 1991 fall in investment flows, as discussed in E/C.10/1993/2.

7. Flows of investment to developing countries, which also appear to follow a pro-cyclical path, dipped in 1989 but continued to increase thereafter (fig. III). During the 1986-1990 global investment boom, inflows in developing countries surged a year later than inflows to developed countries, and continued to grow unabated in 1991 in spite of the fall in world-wide inflows. In 1990, growth rates in these countries were significantly higher than in developed countries, suggesting that differential growth rates may, indeed, play a role in influencing the investment decisions of transnational corporations located in countries experiencing stagnant growth.

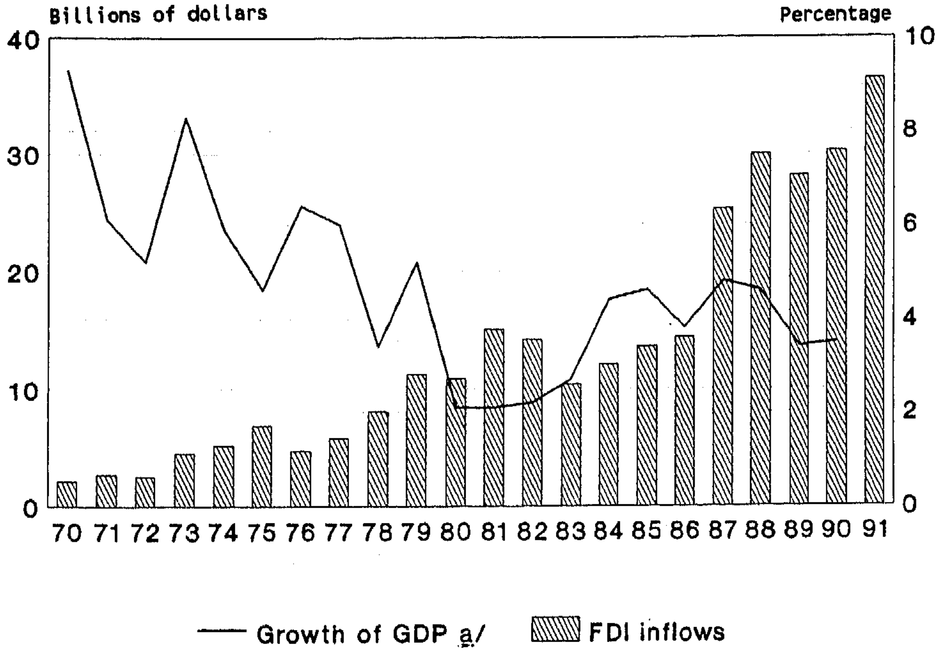
Figure II. Foreign-direct-investment inflows to developed countries and rate of growth of real gross domestic product, 1970-1991



Source: United Nations Secretariat, Department of Economic and Social Development, Transnational Corporations and Management Division, based on International Monetary Fund, balance-of-payments tape, retrieved in October 1992; OECD estimates; World Investment Directory, Global Trends (United Nations publication, forthcoming); and United Nations Secretariat, Department of Economic and Social Development, Development Policy and Analysis Division, data bank of world development statistics.

a/ 1980 prices.

Figure III. Foreign-direct-investment inflows to developing countries and rate of growth of real gross domestic product, 1970-1991



Source: United Nations Secretariat, Department of Economic and Social Development, Transnational Corporations and Management Division, based on International Monetary Fund, balance-of-payments tape, retrieved in October 1992; OECD estimates; World Investment Directory, Global Trends (United Nations publication, forthcoming); and United Nations Secretariat, Department of Economic and Social Development, Development Policy and Analysis Division, data bank of world development statistics.

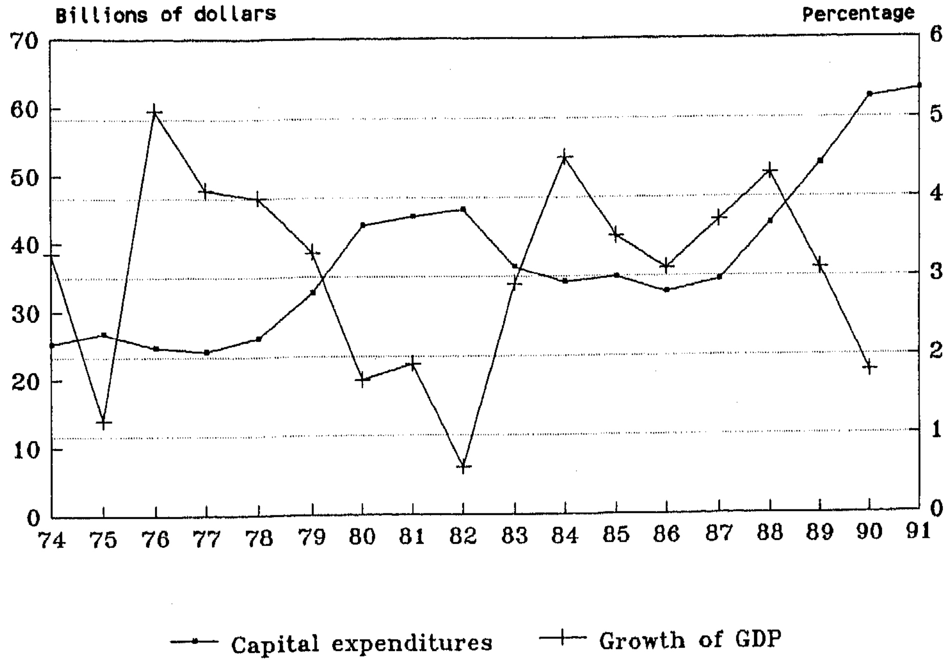
a/ 1980 prices.

8. Capital expenditures of majority-owned foreign affiliates of United States transnational corporations, which indicate the investment plans of companies already located abroad, reflect both home and host-country conditions, and it is not possible to differentiate between the two. Sluggish growth in domestic demand in the home country may reduce profits and constrain the ability of parent companies to finance the capital expenditures of their affiliates by reducing the availability of funds for intra-company loans. At the same time, high growth rates and favourable growth prospects in the host countries in which the affiliates are located can have a positive effect on planned capital expenditures which, at least in part, could mitigate the adverse impact of the financial constraints facing parent companies.

9. Similarly to private domestic investment in the United States, actual capital expenditures of majority-owned foreign affiliates of United States transnational corporations have followed a pro-cyclical path (fig. IV). 3/ The impact of a recession or slow growth in the world economy is reflected in the capital expenditures of majority-owned foreign affiliates of United States transnational corporations through a downward revision of planned capital expenditures and through a more rapid reaction of planned expenditures to changes in the rate of economic growth in comparison to actual expenditures (table 1). Indeed, periods of recession or slow growth, such as the early 1980s, have led to a downward revision of capital spending by foreign affiliates. Similarly, sluggish growth in the United States during 1991 and 1992 has resulted in a downward revision of planned capital expenditures by majority-owned foreign affiliates of United States transnational corporations between the middle and end of 1991. 4/ Japanese transnational corporations have also revised their spending plans downwards, partly owing to a decline in profits of parent companies in Japan due to deteriorating domestic economic conditions. 5/ In particular, these conditions may have a substantial impact on investments by small and medium-size transnational corporations, which are probably more exposed to home-country market conditions owing to their low degree of transnationalization and are thus more susceptible to fluctuations in domestic demand. In the case of United States majority-owned affiliates abroad, planned capital spending has reacted more rapidly to changes in growth rates than actual spending. For example, actual expenditures fell in 1983 in response to slow economic growth and continued to decline in 1984 even after the world economy began to grow again, while for planned expenditures the trend was reversed.

10. Investment flows appear to respond to fluctuations in the rates of growth after a lag of about two years, although the year-to-year volatility of these flows make that pattern less apparent. A similar lag is observed in the response of capital expenditures of majority-owned affiliates of United States transnational corporations to cyclical fluctuations in growth. For example, the recession of 1980-1982 led to a considerable fall in the growth rate of planned capital expenditures of foreign affiliates in the year following the end of the recession. Therefore, investment flows, as well as planned and actual capital expenditures, appear to follow closely swings in economic activity after a time lag.

Figure IV. Actual capital expenditures by majority-owned non-bank foreign affiliates of United States transnational corporations and growth rate of real gross domestic product, a/ 1974-1991



Source: United Nations Secretariat, Department of Economic and Social Development, Transnational Corporations and Management Division, based on United States, Department of Commerce, Survey of Current Business, various issues; United Nations Secretariat, Department of Economic and Social Development, Development Policy and Analysis Division, data bank of world development statistics.

a/ 1980 prices.

Table 1. Planned and actual capital expenditures by majority-owned non-bank foreign affiliates of United States transnational corporations

(Percentage change over previous year)

	World		Developed countries		Developing countries	
Year	Planned	Actual	Planned	Actual	Planned	Actual
1974	22	23	21	26	38	28
1975	3	6	1	5	18	18
1976	-5	-8	-3	-5	-12	-19
1977	12	11	15	15	11	9
1978	15	12	14	14	25	13
1979	22	25	20	25	28	20
1980	24	30	24	29	22	38
1981	7	3	1	-2	28	23
1982	6	1	4	-2	12	11
1983	-4	-18	-1	-16	-6	-20
1984	12	-6	14	-3	10	-13
1985	15	2	15	5	15	-4
1986	2	-7	5	-2	-6	-18
1987	3	5	4	9	1	-8
1988	23	24	21	24	29	18
1989	15	13	11	11	31	18
1990	17	19	16	18	27	22
1991	3	..	1	..	10	..
1992	4	..	3	..	10	..

Source: United States, Department of Commerce, Survey of Current Business, various issues.

11. During the 1980s, the rates of growth of GDP (at 1988 prices) of developed and developing countries as a whole were not substantially different. As a result, foreign-direct-investment inflows fluctuated in the same direction in both developed and developing countries. However, given that developing countries as a whole grew faster than developed countries in 1990 and 1991, coupled with better prospects for future growth, investment flows to the former (and their share of total flows) would be expected to increase. 6/ Indeed, in 1991, the share of developing countries in total inflows rose to 25 per cent from an average of 17 per cent during 1985-1990. In other words, transnational corporations continued to invest in developing countries, partly in response to the more favourable growth prospects; in fact, investments in developing countries tend to be highly concentrated in the rapidly growing newly industrializing economies of Asia and in a few countries in Latin America.

12. Between 1990 and 1992, the percentage increase of planned capital expenditures of majority-owned foreign affiliates of United States transnational corporations in developing countries were considerably above those for developed countries (table 1). Again, stagnating growth rates in the latter compared with the former, coupled with improved business prospects in

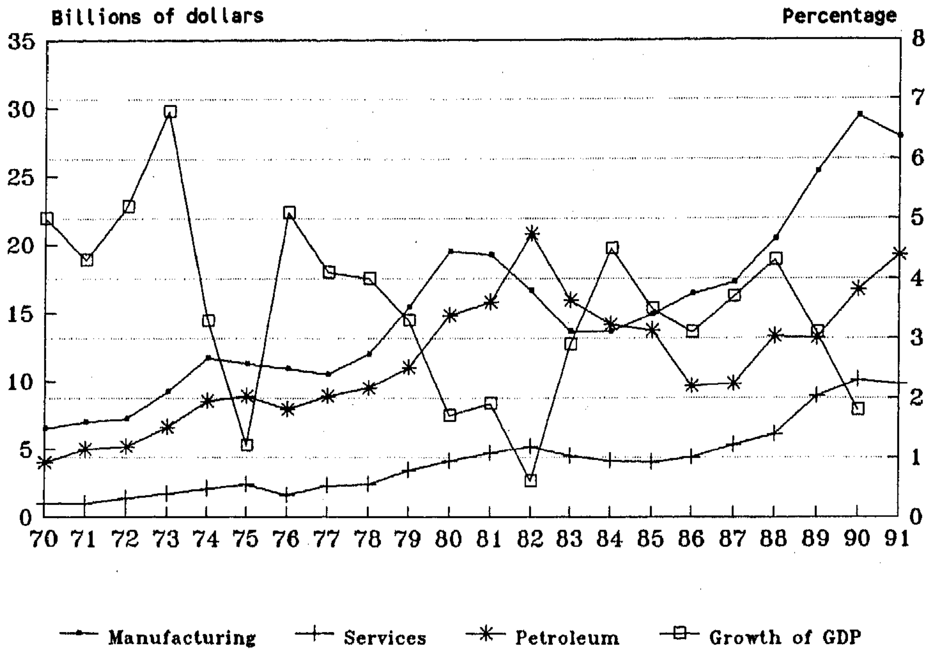
Latin America and Asia may explain, at least in part, the difference in the increase of these expenditures between developed and developing countries. In contrast, during the second half of the 1980s, the growth rate of planned (and actual) capital expenditures of these affiliates in developed countries exceeded those in developing countries. Growth prospects for developed countries appeared to be favourable (given, for example, improved growth prospects for the European Community in view of the impending single market by 1993), which probably led to an acceleration of the rate of growth of capital expenditures of these affiliates in developed countries.

13. These observations allow us to draw some conclusions regarding the role played of cyclical fluctuations in economic growth in influencing the post-1985 boom in investment flows and subsequent fall in 1991. The growth of the world economy appears to have stimulated investment flows during the second half of the 1980s and, correspondingly, the fall in those flows in 1991 may be partly attributed to deteriorating growth conditions in the world economy. These conditions were confined mostly to developed countries which are, however, the principal sources of foreign direct investment. Developing countries as a whole have seen their share in total inflows rise to levels attained during the first half of the 1980s, partly in response to their comparatively stronger economic performance. Differences in growth performance and prospects between developed and developing countries could, therefore, influence the distribution of foreign direct investment between these two groups, since the growth rate of host countries influences both investment inflows and capital expenditure plans of affiliates already located there.

B. Sectoral differences

14. The outward stock of foreign direct investment of major home countries in services grew faster between 1975 and 1990 than that in the primary and secondary sectors. 7/ This raises the question of whether cyclical fluctuations have a different impact on the growth of investment flows in services from the growth of these investments in the manufacturing and primary sectors. Capital expenditures of majority-owned foreign affiliates of United States transnational corporations in manufacturing, services and petroleum have followed a broadly similar upward path with fluctuations in response to cyclical movements (fig. V). In comparison to manufacturing and petroleum, however, capital spending in the services sector appears to be less volatile; in other words, in spite of a pro-cyclical trend, the size of oscillations of expenditures in that sector is smaller than in the other two. One possible explanation is that transnational services corporations, which are less transnationalized than manufacturing companies, are likely to expand investments abroad even during periods of slow growth in order to attain a particular level of outward investment. In addition, it may well be that, given the non-tradable nature of most services, the supply of foreign markets cannot be switched, if need be, to exports (as in the case of manufacturing); hence market positions abroad need to be maintained through continuing investments. Cyclical fluctuations are therefore less likely to have an impact on services investment to the same extent that they do on manufacturing investments. The increase in the share of services in the stock of outward investment by the major home countries could therefore suggest that investment flows may become less affected by cyclical fluctuations in the rates of growth.

Figure V. Actual capital expenditures by majority-owned non-bank foreign affiliates of United States transnational corporations, by sector, and growth rate of real gross domestic product of the world economy, a/ 1970-1991



Source: United States, Department of Commerce, Survey of Current Business, various issues.

a/ 1980 prices.

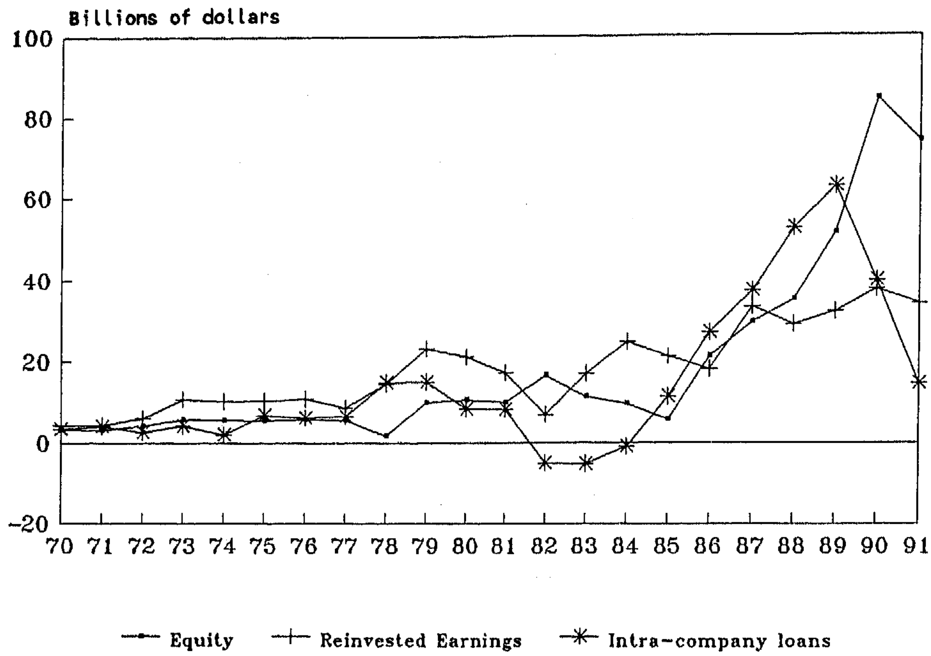
C. Impact on the mode of financing investment

15. Fluctuations in domestic growth are likely to affect the mode of financing foreign direct investment - that is, the share of equity, reinvested earnings and intra-company loans in total foreign-direct-investment outflows. 8/ Transnational corporations may be inclined to use different means of financing investments abroad during periods of recession, as opposed to periods of robust growth; for example, a profit decline of the parent company or the high cost of capital in the home country may induce firms to use profits earned in the host country for investment purposes. On the other hand, the same conditions could lead to higher profit repatriation in order to alleviate the profit decline experienced by parent companies, thus reducing funds available for reinvestment. Not only is the preferred mode of financing investment on the part of transnational corporations likely to be affected by cyclical fluctuations, but also some forms of investment may be more susceptible to the impact of these fluctuations than others. As a result, the overall magnitude and direction of the impact of business cycles on each of the components of foreign direct investment are likely to affect total investment flows.

16. Investment flows from the five largest home countries (France, Germany, Japan, United Kingdom and the United States) grew rapidly during the second half of the 1980s. Nevertheless, the components of these outflows - equity, reinvested earnings and intra-company loans - did not all grow at the same rate. The divergence between their respective growth rates became more apparent after 1977 and especially during the 1980s: during the second half of that period, equity investments and intra-company loans grew faster than reinvested earnings (fig. VI).

17. Differences in oscillations of the components of investment flows would seem to suggest that business cycles may have a different impact on the mode of financing investments abroad. 9/ For example, during periods of slow growth in the world economy, earnings of affiliates may decline and, assuming that profit remittances remain the same, less profit will be available for reinvestment. Under such conditions, equity investments may also decrease reflecting business pessimism of transnational corporations. Intra-company loans, on the other hand, may increase since affiliates may rely on funds obtained from the parent company to increase investments in view of declining profits.

Figure VI. Foreign-direct-investment outflows from France, Germany, Japan a/, United Kingdom b/ and United States, 1970-1991



Source: United Nations Secretariat, Department of Economic and Social Development, Transnational Corporations and Management Division, based on International Monetary Fund, balance-of-payments tape, retrieved in October 1992.

a/ Does not include reinvested earnings.

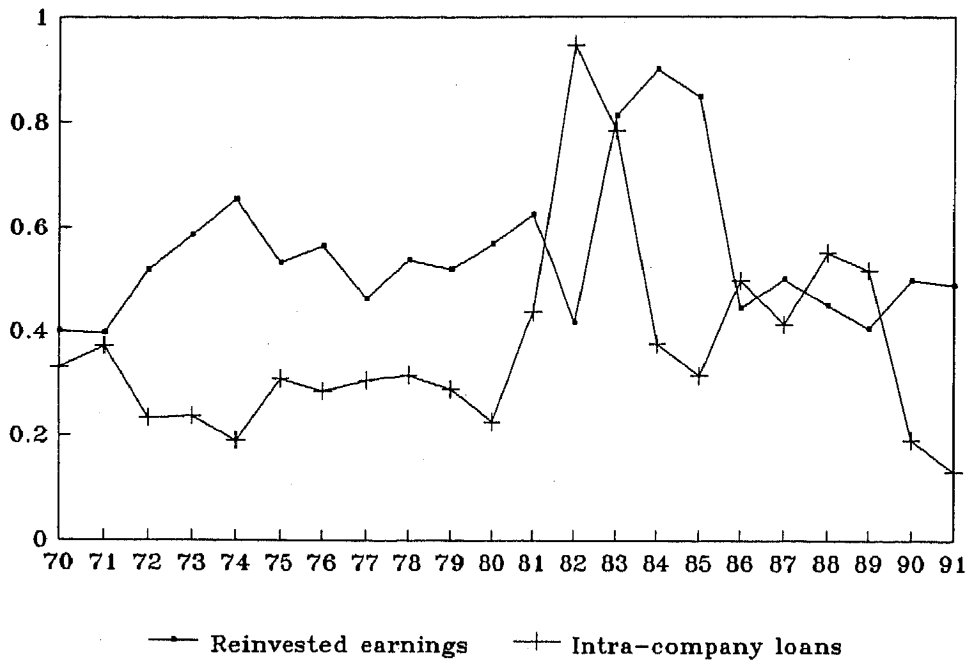
b/ Does not include equity.

18. During the 1980s, reinvested earnings accounted for about one half of total investment outflows from developed countries (E/C.10/1993/2). Given the importance of reinvested earnings as a means of financing outward investments, factors that influence the decision of affiliates to reinvest or repatriate profits are likely to explain a large portion of the fluctuations in investment outflows. Cyclical fluctuations in home and host countries are one factor that could influence the decisions of affiliates to reinvest or repatriate profits. During downturns in economic activity in home countries, foreign affiliates may have to rely on their own earnings for foreign direct investment. On the other hand, foreign affiliates may be required to repatriate profits in order to alleviate the decline of profits experienced by parent companies. Indeed, evidence from the largest home countries appears to support the latter hypothesis: the ratio of reinvested earnings to total investment outflows decreased during periods of low growth; the reverse was true during periods of high growth (fig. VII).

19. Other factors, however, can affect the extent to which earnings are repatriated or reinvested independently of the impact of cyclical fluctuations on economic growth. The cost of capital of alternative means of raising funds and prevailing exchange rates may be considered among those factors that, although not necessarily of a cyclical nature, can influence the extent to which foreign direct investment is financed out of reinvested earnings of foreign affiliates. 10/ A high cost of capital in host countries, for example, may induce affiliates to reinvest their earnings rather than borrow from host-country equity markets. On the other hand, a depreciation of exchange rates of host countries may discourage affiliates from repatriating profits (which would reduce the value of profits when translated into the currency of the home country). It may, therefore, be difficult to attribute a change in the share of total investment flows accounted for by reinvested earnings to cyclical fluctuations alone.

20. Cyclical fluctuation in economic activity in home countries affects operating profits (total revenues less total operating costs) of parent companies, which could in turn affect the mode of financing investment abroad. Foreign affiliates often rely on loans obtained from parent companies to expand operations. Assuming that parent firms face adverse domestic conditions, which reduce their operating profits and force them to adjust their investment plans at home and abroad, it might be expected that intra-company loans from parent companies to their affiliates would decline. In other words, low operating profits and cash-flow problems facing parent companies in home countries would imply that foreign affiliates might have to find alternative means to finance an expansion of their operations. Affiliates, for example, might have to raise funds from international markets or from equity markets of their host countries instead of relying on loans obtained from their parent companies. As a result, the share of intra-company loans in total investment outflows would be expected to decline during a cyclical downswing (possibly with a time lag).

Figure VII. Ratio of reinvested earnings and of intra-company loans to foreign-direct-investment outflows for Germany, United Kingdom and United States, 1970-1991



<u>Source</u>: United Nations Secretariat, Department of Economic and Social Development, Transnational Corporations and Management Division, based on International Monetary Fund, balance-of-payments tape, retrieved in October 1992.

21. Such a pattern does seem to emerge for the three of largest outward investors (Germany, United Kingdom and United States) during 1989-1991. Although the ratio of intra-company loans to total investment flows declined substantially during that period, the same pattern was not observed during earlier periods of slow growth (fig. VII). This might suggest that home-country cyclical growth factors played an important role in the 1991 fall in investment flows in comparison to previous periods of slow growth. Specifically for the United States, the sharp drop in operating earnings of United States transnational corporations during 1990 and 1991 considerably limited their ability to provide new loans to their affiliates abroad. 11/ In fact, the repayment of loans on the part of affiliates has exceeded new loans to these affiliates and has led to a decline in the share of total outflows from the United States accounted for by intra-company loans during that period.

D. Mergers and acquisitions

22. The principal objectives of the companies involved in the international mergers-and-acquisitions boom of the 1980s (which came to an end in the last years of the 1980s), were to consolidate their position within a given industry and to establish themselves in foreign markets. Companies became increasingly aware of the necessity to globalize operations in order to expand market share and achieve economies of scale and scope. The restructuring of operations through mergers and acquisitions along the lines of a larger geographical area as, for example, in the case of the European Community, became important in light of policy developments and strategies of transnational corporations. Acquisitions were perceived as a less expensive means of gaining a foothold in the market of a host country in comparison to establishing new productive facilities; indeed, the majority of foreign direct investment in the United States and Western European countries was in the form of acquisitions as opposed to greenfield investments. The underlying reasons for the boom in mergers and acquisitions during the 1980s, therefore, rest primarily with the strategies pursued by transnational corporations, dictated by competitive forces and technological changes, as well as by policies adopted by Governments of host countries. 12/

23. The end of the mergers-and-acquisitions boom coincided with the end of the strong growth of the world economy. It is, however, difficult to separate the cyclical impact on the slow-down of mergers and acquisitions from that of other factors, such as higher interest rates and stock-market valuations. Nevertheless, it appears that slow economic growth did play a role in influencing the slow-down of mergers and acquisitions by making it more difficult for companies that had been acquired to be profitable in the face of adverse domestic conditions. Several companies created from mergers have reported lower earnings than expected owing to sluggish domestic demand in developed economies. At the same time, transnational corporations from countries facing deteriorating economic conditions and declining profits at home are less likely to engage in international takeovers. As a result, the slow-down of the growth of the world economy appears to have played a role in the decline of mergers and acquisitions.

E. Conclusions

24. There are several implications that arise from the above discussion of cyclical factors and their role in the growth and subsequent fall in investment flows. The growth performance of the five largest home countries, where most investment flows originate, affects the growth of world-wide investment flows. The interdependence of the world economy implies that cyclical fluctuations in growth will be eventually transmitted to other countries. Nevertheless, the distribution of investment flows between developed and developing countries could be influenced by differentials in growth rates, as the experience of the 1990s seems to suggest. Recipient countries may be somewhat shielded from ebbs in investment flows if domestic economic conditions are conducive to profitable investments and long-term growth prospects are favourable. Even when there is an economic downturn in the major home countries, affiliates already located abroad may still continue to invest through profits accruing from operations in the host countries. Affiliates with a long history of foreign direct investment in a given host country are likely to be more profitable than newly established affiliates and, hence, in a better position to shield the host country from cyclical downturns by relying on domestically earned profits. The ability of foreign affiliates to raise funds locally is important in alleviating shortages of funds at times of recession in principal home countries. Measures to allow the participation of affiliates in host-country equity markets would therefore decrease their reliance on parent companies for raising finance. At the same time, decreasing reliance on a single home country for investment will diminish the likelihood of a decline in inflows if that country enters a period of recession.

II. POLICY CHANGES

25. While cyclical factors may explain previous changes in foreign-direct-investment flows, the surge that occurred during 1986-1990 cannot be solely attributed to them. Clearly, other factors, including factors relating to changes in existing policies, also played a role. Although those factors may reflect one-time policy changes that took place during that period, their implications still continue to be felt.

A. Trade liberalization

26. Foreign direct investment is closely interlinked with international trade: for the largest home countries, transnational corporations account for most exports and imports (80 per cent for the United States in 1989), while intra-firm trade accounts for between one fourth and one third of total international trade. Measures to liberalize trade apply especially to manufacturing and, on a limited basis, to services.

27. Trade liberalization accelerated in the 1980s, especially in developing countries. Trade-liberalization measures exert an influence on the growth of foreign direct investment by allowing transnational corporations to establish facilities in countries where production costs are low and export their output; by enabling the formation of regional core networks centred around a member of

the "triad"; and by allowing the integration of production regionally or globally.

28. Within the framework of the general agreement on trade in services - if and when adopted - the overall trend towards trade liberalization could be extended to services. The general agreement on trade in services would also affect immediately cross-border trade and the framework for foreign direct investment in services, as it has a strong liberalizing thrust. That would greatly facilitate and even make possible foreign direct investment in a number of service industries, such as telecommunication and air transportation. 13/

B. Exchange-rate movements

29. From the viewpoint of transnational corporations, the cost of acquiring assets in different countries depends on the prevailing exchange rates. The impact of exchange-rate fluctuations on investment flows is indirect. Typically, a depreciation of the currency of the host country (in relation to the currency of the home country) encourages the inflow of foreign direct investment by reducing investment costs in terms of the home country currency, while an appreciation of the domestic currency encourages the outflow of foreign direct investment. The experience of the United States and Japan offer two examples: a depreciation of the dollar *vis-à-vis* the yen during the second half of the 1980s made United States assets less expensive to Japanese firms, and the perceived increase in the corporate wealth of Japanese firms encouraged investment flows to the United States. 14/

30. Thus, the 1985 Plaza Accord, leading to a considerable appreciation of the Japanese yen *vis-à-vis* the dollar, may be viewed as a policy change that had a considerable impact on investment outflows from Japan. 15/ The large appreciation of the yen (in conjunction with the underlying structural factors of rising production costs coupled with a shortage of skilled labour at home) raised the prices of Japanese exports to a point where the fall in price competitiveness would have made it difficult to retain market share. In addition, the appreciation of the yen against the dollar made the acquisition of United States companies relatively inexpensive. This encouraged a wave of outward investments by Japanese transnational corporations in manufacturing and in services, especially in the United States. While strategic considerations (such as the need to secure market access in the European Community and the United States) also played an important role in the decision of these firms to invest abroad, the appreciation of the yen was a contributing factor.

C. Liberalization of foreign-direct-investment policies and privatization

31. The trend towards the liberalization of foreign direct investment policies, which accelerated during the second half of the 1980s, especially in the services sector, created an entirely new enabling framework for transnational corporations. In 1991, for example, almost all changes in the investment regimes of some 30 countries were in the direction of greater liberalization. At present, not only do all countries allow foreign direct investment, but they often compete with each other for attracting such

investments. The liberalization of regulations on foreign direct investment in the services sector is particularly noteworthy, as manifested by the dramatic growth of investment flows in services.

32. The liberalization of the external transactions has been accompanied by privatization programmes internally. In 1990, more than 70 countries had active privatization schemes, and the value of state enterprises sold reached over $185 billion. 16/ Despite the lack of systematic evidence as to the extent of involvement of transnational corporations in the process of privatization, it is important in Latin America and in Central and Eastern Europe. The involvement of transnational corporations in privatization schemes has played a modest role in explaining the surge in investment flows during the second half of the 1980s, since most of these schemes were introduced only towards the end of that period.

D. Non-tariff barriers

33. In spite of the overall trend towards trade liberalization, non-tariff barriers in the form of voluntary export restraints have been used by some countries in order to limit the flow of imports in selected industries. For example, exercising voluntary export restraints, Japan was compelled to reduce exports of automobiles and semiconductors to the United States. Such policies have led to fears regarding the future imposition of non-tariff barriers in other industries and to the growing necessity to preserve market access through foreign direct investment. Non-tariff barriers, coupled with threats of the imposition of trade restrictions, whether perceived or actual, encouraged Japanese automobile manufacturers to establish production facilities in host-country markets, especially in the United States, in order to secure access to these markets. Nevertheless, given that most Japanese investments in the United States were in the services sector, this factor has, most likely, played a limited role in explaining the rapid growth of investment flows during the second half of the 1980s.

E. Regional integration

34. Regional integration schemes (the completion of the formation of a single market among members of the European Community by 1993 and the Free Trade Agreement between the United States and Canada) sparked significant investment flows to and within the regions involved. The desire by transnational corporations from third countries to become regional "insiders", either through greenfield investments or mergers and acquisitions, led to a faster growth of foreign direct investment in the European Community than would have otherwise been expected. 17/ At the same time, transnational corporations already located within the European Community began to reorganize and rationalize their investments, taking a Community-wide approach, which led to a substantial rise in intra-regional investment flows and in cross-border mergers and acquisitions. A similar process of reorganization of investments took place by transnational corporations from the United States in response to the Free Trade Agreement between the United States and Canada. Investment flows from outsiders as a result of the Free Trade Agreement also increased, with

transnational corporations increasingly viewing North America as a single integrated market. 18/

35. Given that these were one-time policy changes, it may be expected that the growth of investment flows to the European Community and North America (including intra-regional investment flows) would eventually slow down. Indeed, that seems to have happened in 1991 in the case of the European Community, at least as regards investments from Japan. Such a view, however, would ignore the stimulus to economic growth from the dynamic effects arising from the formation of the single market. The expansion of markets and growth of demand - the dynamic effects arising from that regional integration scheme - are likely to present new investment opportunities and encourage new inflows of foreign direct investment, even after the completion of the single market at the end of 1992.

G. Conclusions

36. It seems that one-time policy changes have given an extra push to the cyclical factors that played a role in the growth of investment flows in the 1980s. While some of the impacts of these policies on investment flows may appear to have weakened (for example, gaining a foothold inside the European Community), other impacts are still in operation or have just begun (for example, the implications for foreign direct investment through the dynamic effect of regional integration on growth). Moreover, the introduction of new policies liberalizing trade and investment flows and allowing the involvement of transnational corporations in the process of privatization will continue to affect the growth of investment flows positively.

III. STRUCTURAL FACTORS

37. The changing structure of the world economy, with a sizeable and growing foreign-direct-investment stock in place and the emergence of an integrated international production system, also played a role in explaining the size of the surge in investment flows during the second half of the 1980s. These structural changes in the world economy suggest that, in the absence of cyclical and policy-related factors, the upward trend followed by investment flows is likely to continue in the future.

A. Growth of the stock of foreign direct investment

38. The stock of global foreign direct investment has increased steadily in the period since the Second World War and, in 1991, was estimated to have reached about $1.9 trillion in book value. 19/ World-wide outward investment stocks (valued in current dollars) grew by an annual average of 15 per cent during 1985-1991, compared with 10 per cent during 1980-1985. 20/ Associated with that stock, world-wide sales of foreign affiliates doubled between 1985 and 1990 (table 2). Stock data best capture the extent of the activities of transnational corporations, since they represent the capacity to generate streams of future output. The fact that a sizeable stock of foreign direct investment is already in place suggests that its capacity to generate

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earnings will continue to grow in the future. The magnitude of reinvested earnings, a significant component of investment flows, may continue to increase, which would give rise to higher future investment flows. Moreover, the sizeable investment stock already in place is likely to drive investment and associated resource flows into self-sustained growth, thus fostering the capacity of that stock to generate earnings in the future.

Table 2. World stock of foreign direct investment and sales of foreign affiliates, 1960-1991

(Billions of dollars)

Year	Outward stock	Sales abroad
1960	68	
1967	112	
1973	211	
1980	517	
1981	856	
1982	910	2 400
1983	947	2 300
1984	989	2 500
1985	1 042	2 500
1986	1 096	2 900
1987	1 184	3 500
1988	1 319	4 200
1989	1 487	4 400
1990	1 700	5 500
1991	1 880	..

Source: "Trends in foreign direct investment" (E/C.10/1993/2); World Investment Directory: Global Trends (United Nations publication, forthcoming).

B. Emergence of an integrated international production system

39. The sizeable stock of foreign direct investment attributable to over 35,000 transnational corporations and the world-wide sales of about $5.5 trillion associated with that stock in 1990 suggest that international production has become an important structural characteristic of the world economy. Partly, this is the result of technological developments in the area of communications, which have enabled a greater coordination of activities between parent transnational corporations and their affiliates or among affiliates and have allowed firms to achieve a higher degree of integration of these activities. In addition, falling transportation and communications costs have meant that transnational corporations, even small and medium-size firms, are now able to coordinate activities world wide and export intermediate or final goods to other countries or from foreign affiliates to home countries. These technological developments have brought about changes in the organizational structure of transnational corporations, driven by heightened

competition and a growing awareness among companies of the necessity to invest abroad in order to place themselves in a position to serve domestic markets better. These developments are leading to the emergence of an integrated international production system in which linkages of affiliates with parent companies or with other affiliates are multiplying and/or are becoming more complex.

40. The continuous move to organize international production in a regionally or globally integrated manner as dictated by strategies of transnational corporations (E/C.10/1993/4) implies that a growing share of resources of a country, including capital, are involved in the building of such an integrated production system. The growing integration of international production implies that the magnitude of cross-border intra-firm flows of goods, services, technology and investment capital is rising and is likely to continue to do so in the future. Within the framework of the emerging integrated production system, the nature of cross-border transactions is changing, with many (especially intangible) activities not reflected in investment flows as measured conventionally. Furthermore, transnational corporations have established a multitude of non-equity links, including strategic alliances, which, again, are not captured by foreign-direct-investment data. In other words, the emergence of an international integrated production system is creating a certain self-sustaining momentum which has important implications for the growth of investment flows as well as for the growth of non-equity intra- and interfirm cross-border transactions.

IV. FUTURE PROSPECTS

41. In general, of course, firms that possess tangible or intangible assets arising from ownership will continue to maximize net benefits by internalizing transaction costs and by investing in countries that provide advantages particular to their location. 21/ The combination of ownership, internalization and location-specific advantages will, therefore, continue to induce firms to engage in international production and to locate value-adding activities abroad. However, the rise in investment flows during the second half of the 1980s and the fall in these flows in 1991 raise the question of whether these flows will continue to increase in the future from a higher level (investment flows in 1991, despite their fall, are still above the level reached in 1988). Assuming that this is indeed the case, a related question is whether that increase will take place at an increasing or decreasing rate of growth. Although cyclical factors will continue to influence the growth of investment flows, the continuation of policy changes and the changing structure of the world economy resulting from the activities of transnational corporations make it probable that investment flows will not fall to the level of the early 1980s but will continue to grow from a higher level. Policy developments, imbalances in the degree of transnationalization of countries and sectors and structural factors that are likely to encourage that increase are discussed below.

A. Future prospects regarding policy developments

1. Liberalization of trade and investment regimes

42. To the extent that trade liberalization continues, transnational corporations - encouraged by technological developments - will have an incentive to invest abroad and reduce production costs by rationalizing their investments. Trade liberalization may also accelerate the organization of international production into regionally or globally integrated networks by allowing the movement of goods and, increasingly, services that is necessary for the formation of an integrated production system.

43. Despite continuous steps towards a greater relaxation of restrictions on foreign direct investment, there is still scope for more extensive liberalization, including on the sectoral level. As regards the services sector (which now accounts for over half of total investment flows from major home countries), it is still possible to further liberalize the regulatory framework for these investments, especially in developing countries. The opening of public utilities, insurance and other services industries to foreign direct investment, coupled with the relatively low tradability of services, is likely to induce services transnational corporations to continue to invest abroad at a high rate. It is also likely that privatization could play a greater role in the future, and some countries (especially in Latin America) are already in the process of replacing debt-to-equity conversion schemes with privatizations as the principal incentive to attract foreign direct investment.

2. Regional integration schemes

44. The continuation of regional integration in Western Europe and North America, as well as the closer integration at the production level in Asia, which is emerging as a result of the activities of transnational corporations in that region even in the absence of a formal institutional framework, are likely to result in further increases in foreign direct investment. Specifically, the extension of the European Community to encompass most members of the European Free Trade Association, leading to the formation of a European economic area, is likely to result in greater intra- and extra-regional investment flows. Similarly, the extension of the United States Canada Free Trade Agreement to include Mexico under the North American Free Trade Agreement has already led to substantial investment flows to Mexico ($4.8 billion in 1991). The envisioned creation of a free trade zone in the western hemisphere (Enterprise for the Americas Initiative) could also have a positive impact on the growth of foreign-direct-investment flows in the future. Again, the desire to be an insider and the impact of dynamic growth effects arising from these regional integration schemes suggest that the attractiveness of these regions to transnational corporations will continue even after the adjustment and reorganization of their investments in response to the one-time changes in geographical and economic boundaries has taken place.

B. Imbalances in degrees of transnationalization

45. Imbalances between the inward and outward investment positions of a country and in the degree of transnationalization between newcomers and more mature foreign investors as well as between services and non-services sectors may suggest that there is room for further transnationalization. Although there is no reason to believe that countries or groups of firms need to converge towards any particular degree of transnationalization, it is possible that international competition will force newcomers to expand their production facilities abroad. At the same time, transnational corporations in services may continue to invest abroad at a rapid rate, and the degree of transnationalization of that sector may, eventually, catch up with that of manufacturing.

1. Country imbalances

46. The imbalance between inward and outward foreign direct investment for Japan as well as the low ratio of inward foreign-direct-investment stock to domestic output (GDP) is not in line with the experience of the other triad members (European Community and the United States). 22/ The alleviation of perceived or actual barriers to inward foreign direct investment is likely to result in increased investments to Japan, leading to greater parity with the other triad members. Concerning outward investment, the position of a country on the development path determines, to a certain extent, the degree of transnationalization of its firms. For example, relatively mature investors, such as the United Kingdom, have a high degree of transnationalization of their firms. Despite the rapid growth of investment flows since 1985, Japan is still a newcomer in comparison to other members of the triad with a long history of outward investments. Although the degree of transnationalization of Japanese firms has risen, as indicated by increases in the ratio of the stock of foreign direct investment to total assets of all companies, Japan remains less transnationalized in comparison to other major home countries (table 3). 23/ It is therefore likely that investment outflows from Japan, despite their recent slow-down, will continue to be substantial in the future.

47. In addition to Japan, other countries in the 1980s have accelerated the pace of transnationalizing their economies. In this regard, the process of transnationalization of the Republic of Korea and Taiwan Province of China, which have become net foreign-direct-investment exporters since 1990 and 1987, respectively, is likely to continue in the future. China itself is rapidly expanding its investment position abroad. Other countries in Asia and Latin America are likely to follow suit. It is conceivable that even some of the countries of Central Europe, once they have completed their transition to market economies, could become sizeable outward investors. Together, these countries could constitute a new and significant source of investment flows in the future.

Table 3. Ratio of foreign-direct-investment outward stock to total assets of the home country, 1990

(Percentage)

Country	
Japan	4.0
United States a/	8.0
Germany	15.4
United Kingdom b/	26.0

Source: World Investment Directory: Developed Countries 1992 (United Nations publication, forthcoming).

a/ 1991. Foreign-direct-investment stock at historical cost adjusted for the finance (except banking), insurance and real estate industry of the Netherlands Antilles.

b/ Ratio of non-bank foreign-direct-investment stock to non-financial assets in 1987.

2. Sectoral imbalances

48. On the sectoral level, the degree of transnationalization varies considerably. Services usually have a lower degree of transnationalization than manufacturing, in spite of the rapid growth of the services sector at home (as share of domestic GDP). For instance, in the case of the United States, some 21 per cent of the assets of transnational services corporations were abroad in 1980, compared to 27 per cent for manufacturing transnational corporations. 24/ To a large extent, this is the case because of restrictions on inward investments in services, the liberalization of which began only relatively recently. Thus, it might be expected that investment flows in the services sector will continue to grow substantially.

C. Shortage of labour

49. Labour shortages and high-cost labour in a number of developed countries and a trend in this direction in several newly industrializing economies have acted as a modest "push" factor, encouraging outward foreign direct investment. Given restrictions in international migration, foreign direct investment may be seen as an alternative means of accessing pools of labour in other countries to alleviate domestic shortages of both skilled and unskilled labour. Indeed, the newly industrializing economies of Asia, facing labour shortages at home, are following the example of Japan and are relocating labour-intensive industries to neighbouring countries where production costs are lower (for example, China and Viet Nam).

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50. Apart from the ownership, internalization and locational advantages that encourage firms to invest abroad, the continuous influence of policy developments in investment, trade and regional integration, imbalances in the degree of transnationalization between countries and sectors and, to a lesser extent, pressures emanating from labour shortages or high-cost labour in some countries suggest that even in the absence of cyclical factors, investment flows will continue to increase. In addition, the stock of foreign direct investment already in place and the greater integration of corporate activities across functions and regions generates a self-perpetuating growth in investment flows.

CONCLUSION

51. The interplay of cyclical, policy-related and structural factors offers a plausible explanation for the growth in investment flows during the second half of the 1980s. The increasing importance of structural factors and the continuing effect of certain policy factors suggest that, on balance, a long-term upward trend in foreign direct investment and international production will characterize the world economy of the 1990s. Nevertheless, foreign-direct-investment flows, like those of domestic investment, will continue to respond to cyclical fluctuations, and these fluctuations may well be transmitted faster world wide as a result of the growing integration of international production. In view of these developments, the transnationalization of the world economy - namely, the share of total value-added performed outside the boundaries of the home country - is likely to increase, strengthening the role of transnational corporations as integrating forces and coordinators of cross-border transactions.

Notes

1/ The growth rate of GDP (at 1988 prices) in Central and Eastern Europe fell dramatically in 1990 and 1991 and was estimated to be -5 and -16 per cent, respectively. For foreign-direct-investment data, see World Investment Directory 1992: Central and Eastern Europe (United Nations publication, Sales No. E.93.II.A.1).

2/ See, for example, DeAnne Julius, Global Companies and Public Policy (London, Pinter Publishers, 1990).

3/ Planned domestic capital expenditures by all United States companies are closely correlated with capital expenditures of majority-owned foreign affiliates of United States parent companies. See Mahnaz Fahim-Nader, "Capital expenditures by majority-owned foreign affiliates of U.S. companies, latest plans for 1992", Survey of Current Business, No. 72 (September 1992), pp. 48-55.

4/ According to a survey taken by the United States, Department of Commerce, Bureau of Economic Analysis in June 1991, majority-owned affiliates of United States transnational corporations planned to increase capital expenditures in 1991 by 10 per cent; in the survey taken in December 1991, that figure was revised to 3 per cent (Mahnaz Fahim-Nader, "Capital expenditures by majority-owned foreign affiliates of U.S. companies, plans for 1992", Survey of

Current Business, No. 72 (March 1992), pp. 43-50). Similarly, planned capital expenditures for 1992 were revised downward in the survey taken in June 1992 in comparison to the survey taken in December 1991 (Mahnaz Fahim-Nader, "Capital expenditures by majority-owned foreign affiliates of U.S. companies, latest plans for 1992", Survey of Current Business, No. 72 (September 1992), pp. 48-55). This is similar to the experience of earlier periods of slow growth: based on a survey taken in December 1981, the growth of planned capital expenditures of these affiliates was 11 per cent; in the survey taken in June 1982, the growth of these expenditures was revised downwards to 6 per cent (Ralph Kozlow, Survey of Current Business, No. 62 (September 1982), p. 43).

5/ Anthony Rowley, "Ebbing streams: Japanese firms curtail their overseas forays", Far Eastern Economic Review, No. 155 (18 June 1992), pp. 78-79.

6/ Based on forecasts of the United Nations Secretariat, Department of Economic and Social Development, growth of GDP at 1988 prices in developing countries will be substantially higher than in developed countries during the early 1990s.

7/ World Investment Report 1992: Transnational Corporations as Engines of Growth (United Nations publication, Sales No. E.92.II.A.19), p. 18.

8/ No systematic information exists on the financing of investments from locally raised capital, which is not included in foreign-direct-investment data reported for the balance of payments.

9/ In addition to growth rates, however, other factors, such as the cost of capital in the host country, may influence the mode of financing investment flows. For example, foreign affiliates may find it more advantageous to raise capital in the host countries if interest rates are low than to borrow from the parent company in order to finance their investments.

10/ Exchange-rate fluctuations also influence the valuation of reinvested earnings and hence total investment flows. The United States, for example, has excluded changes in flows attributed to sizeable exchange-rate fluctuations from the reported foreign-direct-investment data.

11/ Russell B. Scholl, Raymond J. Mataloni, Jr. and Steve D. Bezirganian, "The international investment position of the United States in 1991", Survey of Current Business, No. 72 (June 1992), pp. 46-59.

12/ International Cooperation Agreements and International Mergers and Acquisitions in the 1980s: Central Measures in the Strategies of Transnational Corporations (United Nations publication, forthcoming).

13/ World Investment Report 1992, chap. III.

14/ Kenneth A. Froot and Jeremy C. Stein, "Exchange rates and foreign direct investment: an imperfect capital markets approach", The Quarterly Journal of Economics, No. 106 (November 1991), pp. 1,191-1,217; Paul Krugman and Edward Graham, "The surge in foreign direct investment in the late 1980s: conceptual issues", paper presented at the National Bureau of Economic Research conference "Foreign Direct Investment Today", Boston, 15-16 May 1992.

15/ In 1985, the average exchange rate was 239 yen per dollar; in 1986, the yen appreciated to 169 yen to the dollar and continued to appreciate until 1988, when it reached the point of 128 yen per dollar.

16/ World Investment Report 1992 ..., p. 86.

17/ For a discussion of the impact of the completion of the European Community single market by 1993, see From the Common Market to EC 92: Regional Economic Integration in the European Community and Transnational Corporations (United Nations publication, Sales No. E.93.II.A.2).

18/ Regional Economic Integration and Transnational Corporations in the 1990s: Europe 1992, North America, and Developing Countries (United Nations publication, Sales No. E.90.II.A.14).

19/ See E/C.10/1993/2. To the extent that investment outflows are positive, the outward stock increases.

20/ Ibid. The conversion of global foreign-direct-investment stock data from national currencies into dollars is bound to reflect valuation changes resulting from exchange-rate fluctuations. Nevertheless, even when stocks are reported in special drawing rights, their annual growth rate during the second half of the 1980s is almost two times higher than during the first half.

21/ John H. Dunning, Multinational Enterprises and the Global Economy (Wokingham, United Kingdom, Addison-Wesley, 1993).

22/ World Investment Report 1992 ..., p. 20.

23/ The Process of Transnationalization and Transnational Mergers (United Nations publication, Sales No. E.89.II.A.4).

24/ United States, Department of Commerce, Bureau of Economic Analysis, U.S. Direct Investment Abroad: 1989 Benchmark Survey (Washington, D.C., Government Printing Office, 1992).
